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Studies in Tape Reading

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III. The Stock List Analyzed

IN the last chapter we referred to Union Pacific as the most desirable stock for active trading. The "Analyst" informs us that he once made a composite chart of the principal active stocks, for the purpose of ascertaining which, in its daily fluctuations, followed the course of the general market most accurately. He found Union Pacific was what might be called the market backbone, while the others, especially Reading, frequently showed erratic tendencies, running up or down, more or less contrary to the general trend. Of all the issues under inspection, none possessed the all-around steadiness and general desirability for trading purposes displayed by Union Pacific.

But the Tape Reader, even if he decides to operate exclusively in one stock, cannot close his eyes to what is going on in others. Frequent opportunities occur elsewhere. In proof of this, take the market in the early fall of 1907: Union Pacific was the leader throughout the rise from below 150 to 167⅝. For three or four days before this advance culminated, heavy selling occurred in Reading, St. Paul, Copper, Steel and Smelters, under cover of the strength in Union. This made the turning point of the market as clear as daylight. One had only to go short of Reading and await the break, or he could have played Union with a close stop, knowing that the whole market would collapse as soon as Union turned downward. When the liquidation in other stocks was completed, Union stopped advancing, the supporting orders were withdrawn, and the "pre-election break" took place. This amounted to over 20 points in Union, with proportionate declines in the rest of the list.

The operator who was watching only Union would have been surprised at this; but had he viewed the market as a complete organism he must have seen what was coming. Knowing the point of distribution, he would be on the lookout for the accumulation which must follow, or at least the level where support would be forthcoming. Had he been expert enough to detect this, quick money could have been made on the subsequent rally.

While Union Pacific at present constitutes the backbone, this important member is only one part of the market body, which after all is very like the physical structure of a human being.

To get this point clearly in mind, let us draw on our imaginations a little: Union is strong and advancing; suddenly New York Central develops an attack

of gout; Consolidated Gas goes off on a spree; American Ice becomes nauseatingly weak; Southern Railway develops typhoid; Great Western cannot meet expenses, and is prostrated. There may be nothing at all the matter with the backbone, but its strength will be affected by sickness or excesses among the other members.

A bad break may come in Brooklyn Rapid Transit, occasioned by some political attack, or other purely local influence. This cannot possibly affect the business of the grangers, transcontinentals, or coalers, yet St. Paul, Union, and Reading decline as much as B. R. T. A person whose finger is crushed will sometimes faint from the shock to his nervous system, although the injured member will in no wise affect the other functions of the body.

The time-worn illustration of the chain which is as strong as its weakest link, will not serve. When the weak link breaks the chain is in two parts, each part being as strong as its weakest link. The market does not break in two, even when it receives a severe blow. If something occurs in the nature of disaster, whereby the money situation, investment demand, public sentiment, and corporate earning power are deeply affected, a tremendous break may occur, but there is always a level, even in a panic, where buying power becomes strong enough to produce a rally or a permanent upturn.

The Tape Reader must endeavor to operate in that stock which combines the widest swings, with the broadest market; he may therefore frequently find it to his advantage to switch temporarily into other issues which seem to offer the quickest and surest profits. It is necessary for us to become familiar with the characteristics of the principal speculative mediums that we may judge their advantages in this respect, as well as their weight and bearing upon a given market situation.

The market is made by the minds of many men. The state of these minds is reflected in the prices of securities in which their owners operate. Let us examine some of the individuals, as well as the influences behind certain stocks and groups of stocks in their various relationships. This will, in a sense, enable us to measure their respective power to affect the whole list or the specific issue in which we decide to operate.

The market leaders are, as already stated, Union, Reading, Steel, St. Paul, Amalgamated and Smelters. Manipulators, professionals and the public derive their inspiration largely from the action of these six issues, in which 40 per cent to 80 per cent of the total daily transactions are concentrated. We will therefore designate these as the "Big Six."

Four stocks out of the Big Six are chiefly influenced by the operations of what is known as the Harriman-Standard Oil party, the most active members of which are E. H. Harriman, William Rockefeller, H. H. Rogers, and H. C. Frick. Their four stocks are Union, Reading, St. Paul, and Amalgamated. Of the other two, Smelters is handled by the Guggenheims, while Steel is unquestionably swung up and down more by the influence of public sentiment than anything else. Of course the condition of the steel trade forms the basis of important movements in this issue, and occasionally Morgan or some other large interest may take a hand by buying or selling a few hundred thousand shares, but, generally speaking, it is the attitude of the public which chiefly affects the price of Steel common. This should be borne strictly in mind, as it is a valuable guide to the technical position of the market, which frequently turns on the over-bought or oversold condition of the public.

Next in importance come what we will term the Secondary Leaders; viz., those which at times burst into great activity, accompanied by large volume. These are rightly termed Secondary Leaders, because while they seldom influence the Big Six to a marked extent, the less important issues usually fall into line at their initiative.

The principal Secondary Leaders are:
Atchison,
Baltimore & Ohio,
Brooklyn Rapid Transit,
Colorado Fuel,
Consolidated Gas,
Delaware & Hudson,
Erie,
Great Northern,

Northern Pacific,
Illinois Central,
Louisville & Nashville,
Missouri Pacific,
New York Central,
Northern Pacific,
Pennsylvania,
Southern Pacific,
Sugar.

Another group which we will call the Minor Stocks is comprised of less important issues, mostly low-priced, and embracing many public favorites, such as

American Car & Foundry,
Chesapeake & Ohio,
Chicago Great Western,
Colorado Southern,
Denver & Rio Grande,
Interborough,
Mexican Central,
Missouri, Kansas & Texas,
Norfolk & Western,
Ontario & Western,
Republic Iron & Steel,
Rock Island,
Southern Railway,
Texas Pacific,
Wabash.

These groups are arranged solely with regard to their present speculative prominence, and their power to influence the general market. Some people, when they see an advance inaugurated in some of the Minor Stocks, such as Chesapeake & Ohio, Ontario & Western, or Rock Island, are led to buy Pennsylvania, Reading and other Primary or Secondary Leaders, on the ground that the latter will be bullishly affected. This sometimes occurs; more often it does not. It is just as fallacious to expect a 5,000-share operator to follow a 100-share trader, or a 100-share man to be influenced by what the 10-share trader is doing.

The various stocks in the market are like a gigantic fleet of boats, all hitched together and being towed by the tugs "Money Situation," and "Business Conditions." In the first row of boats are the Big Six; behind them, the Secondary Leaders, the Minors, and the Miscellaneous issues in the order named. It takes time to generate steam and to get the fleet under way. The leaders are first to feel the impulse; the others follow in turn. Should the tugs halt, the fleet will run along for awhile under its own momentum, and there will be a certain amount of bumping, backing and filling. In case the direction of the tugs is changed abruptly, the bumping is apt to be severe. Obviously, those in the rear cannot gain and hold the leadership without an all-around readjustment.

The Big Six are representative of America's greatest industries—railroading, steel making, and mining. It is but natural that these stocks should form the principal outlet to the country's speculative tendencies. The Union Pacific and St. Paul systems cover the entire West. Reading, of itself a large railroad property, dominates the coal mining industry; it is so interlaced with other railroads as to typify the Eastern situation. Steel is closely bound up with the state of general business throughout the states, while Amalgamated and Smelters are the controlling factors in copper mining and the smelting industry.

In order that we may consider the relationships of the principal stocks on the list, let us further divide the active issues into groups.

THE HARRIMAN GROUP.

Union Pacific, Reading,* Southern Pacific, Atchison, Erie,† Illinois Central, Pacific Mail, Wheeling and Lake Erie.

THE STANDARD OIL GROUP.

Amalgamated Copper, Anaconda, Sugar, St. Paul, Consolidated Gas, Corn Products, American Linseed, Brooklyn Union Gas.

THE MORGAN GROUP.

Atlantic Coast Line, Hocking Valley, Louisville & Nashville, Southern Railway, U. S. Steel, General Electric, and Mercantile Marine.

THE PENNSYLVANIA GROUP.

Pennsylvania, Pittsburg, Cin. Ch. & St. Louis, Baltimore & Ohio, Chesapeake & Ohio, Norfolk & Western.

THE HILL GROUP.

Great Northern, Northern Pacific, Great Northern Ore & Pacific Coast.

*Reading is placed in the Harriman group because this party, while not in control, is at present the most active in the stock.

†Morgan party predominates on directorate, but Harriman is a large holder and the positive factor in Erie's resuscitation.

THE GOULD GROUP.

Missouri Pacific, Denver & Rio Grande, Texas Pacific, Wabash, Western Maryland, St. Louis Southwestern, Western Union, and Colorado Fuel.

THE VANDERBILT GROUP.

New York Central, Northwest, C., C., C., & St. L.; Lake Erie & Western, N. Y., Chicago & St. L., N. Y. & Harlem, and Delaware & Hudson.

THE HAWLEY GROUP.

Colorado & Southern, Minneapolis & St. Louis, Iowa Central, Toledo, St. L. & Western, Chicago & Alton.

THE MOORE GROUP.

Rock Island, St. L. & San Francisco, American Can.

THE CANADIAN PACIFIC GROUP.

Canadian Pacific, Minneapolis, St. Paul, S. S. Marie, Duluth, South Shore & Atlantic.

THE GUGGENHEIM GROUP.

Am. Smelting, National Lead, Utah Copper.

THE NEW HAVEN GROUP.

New Haven, Ontario & Western.

Arranged according to industries we have the following:

STEEL STOCKS.

U. S. Steel, Am. Steel Foundries, Bethlehem Steel, Colorado Fuel & Iron, Great Northern Ore, Republic Iron & Steel, Sloss-Sheffield, U. S. Cast Iron Pipe & Foundry.

EQUIPMENT STOCKS.

Am. Car & Foundry, Am. Locomotive, N. Y. Air Brake, Pressed Steel Car, Pullman, Railway Steel Springs.

ELECTRICAL STOCKS.

General Electric, Westinghouse, Allis-Chalmers.

COPPER STOCKS.

Amalgamated, Anaconda, Granby, Newhouse, Tennessee, Utah (Am. Smelters is also closely identified with this industry).

TELEGRAPH AND TELEPHONE STOCKS.

Western Union, Mackay Companies, Am. Telegraph & Telephone.

ANTHRACITE STOCKS.

Reading, Erie, Delaware, Lack. & Western, Delaware & Hudson, Ontario & Western, and Pennsylvania.

CHEMICAL STOCKS.

Am. Agricultural Chemical, Virginia-Carolina Chemical, Am. Cotton Oil.

The above are the principal groups. There are, of course, a number of independent railroads, such as Missouri, Kansas & Texas, Kansas City Southern, Chicago Great Western, and Wisconsin Central, besides local traction companies and combines, such as the Ryan-Belmont Group in New York City, including Interborough-Metropolitan, Third Avenue, and Manhattan. These and other public utility stocks, such as Peoples Gas, and Toledo Railway & Light, etc., are governed by local conditions, and do not, as a rule, affect the general list.

Large industrial concerns like Am. Sugar, Am. Woolen, International Paper, International Harvester, U. S. Rubber, etc., are also affected principally by the state of their respective trades, and carry little weight otherwise.

Having classified the principal active stocks we can now recognize more clearly the forces behind their movements. For instance, if Consolidated Gas suddenly becomes strong and active, we know it will probably affect Brooklyn Union Gas, but there is no reason why the other Standard Oil stocks should advance more than slightly and out of sympathy. But if all the stocks in the Standard Oil group advance in a steady and sustained fashion, we know that these capitalists are engaged in a bull campaign. As these people do not enter deals for a few points it is safe to go along with them for awhile, or until distribution becomes apparent.

An outbreak of speculation in Colorado Fuel is no bull argument on the other Steel stocks. It usually means that the Gould party is active. If it were based on trade conditions, U. S. Steel would be the first to feel the impetus, which would radiate to the others.

In selecting the most desirable stock out of the Standard Oil group, for instance, the Tape Reader must consider whether conditions favor the greatest activity and volumes in the railroad or industrial field. In the former case, his choice would be St. Paul; in the latter, Amalgamated.

In the Harriman Group, Erie may come out of its rut (as it did during the summer of 1907, when it was selling around 24), and attain leadership

among the low-priced stocks. This indicates some important development in Erie; it does not foreshadow a rise in all the Harrimans. But if a strong rise starts in Union Pacific, and Southern Pacific, and the others in the group follow consistently, the Tape Reader will get into the leader and stay with it. He will not waste time on Erie, for while it is moving up 5 points, Union Pacific will advance 10 or 15 points, provided it is a genuine Harriman move. Many valuable deductions may be made by studying these groups.

Experience has shown that when a rise commences in Atchison (a Secondary Leader), the Big Six is about done and distribution is taking place, under protection of the strength in Atchison and others in its class. Sugar acts in a similar capacity for the Standard Oil group. Professional traders call these stocks "Indicators."

The Harriman and Standard Oil parties work in harmony, their relations in the various properties being closely interwoven.

The Morgan people are comparatively inactive, except at times when they turn over immense quantities of Steel securities. We feel safe in asserting that no manipulative orders emanate from the corner of Wall and Broad. This is also true of the Hill and Pennsylvania groups, except in rare instances, when bankers are bringing out new issues.

The absence of inside manipulation in a stock leaves the way open for pools to operate, and many of the moves that are observed in these groups are produced by a handful of floor or office operators, who, by joining hands and swinging large quantities, are able to force their stock in the desired direction.

Activity in the Gould group is largely confined to Missouri Pacific and Colorado Fuel, but the others are taken in hand at times, with the exception of Western Union, which is principally held for investment.

Of the Vanderbilts, New York Central is the leader; all the others usually take their cue from it. Neglect is the principal market characteristic of the majority of this group, most of the outstanding shares being locked up in safe deposit boxes. The principal moves are made by those not identified with the Vanderbilts. (It will be noted that Wm. Rockefeller, James Stillman, and some of the Morgan party are directors.) The "Junior" Vanderbilts, such as N. Y., Ch., & St. L., and Lake Erie & Western are poor leaders, and generally unsatisfactory stocks to watch, except as straws, showing the direction of the wind.

With the exception of Colorado & Southern, the Hawley stocks cut very little figure—their movements carry slight significance.

The Moore party's principal activities are confined to Rock Island, the influence of which seldom extends beyond its own controlled properties.

The primary market for Canadian Pacific is in London. The movements of its American loop (Minn., St. Paul & S. S. Marie), are not significant. Duluth, South Shore & Atlantic is given a run once or twice a year by the Canadian Pacific following having its headquarters in Montreal.

The Guggenheims are always active in Smelters, and the stock frequently offers splendid trading opportunities. Lead is frequently used as a "chaser," and is often made active when Smelters has completed its run.

New Haven is mainly held by New Englanders for investment. Ontario & Western is popular with small traders; its movements deserve little consideration.

U. S. Steel is swayed by conditions in the steel trade, and the speculative temper of the general public, assisted occasionally by some of the insiders. No other stock on the list is such a true index of the attitude of the public, or the technical position of the market. Including both those who own the stock outright, and who carry it on margin, probably a quarter of a million people here and abroad closely follow its movements. Weekly reports of the steel trade are most carefully scrutinized, and the corporation's earnings and orders on hand minutely studied by thousands.

This great public never sells its favorite short, but carries it "paid for," or on margin until a profit is secured, or until it is shaken or scared out in a vio-

come out of its rut (as it did during the summer of 1907, when it was selling around 24), and attain leadership lent decline. Hence, if the stock is strong under adverse news, we may infer that public holdings are strongly fortified, and that confidence abounds. If Steel displays more than its share of weakness, an untenable position of the public is indicated.

The other steel stocks are dominated by the giant corporation, and seldom furnish indications of value to the Tape Readers, except at the end of a long rise.

At this point public sentiment becomes intensely bullish and spreads itself in the low-priced speculative shares. Insiders in the junior steel stocks take advantage of this and are able to advance and find a good market for their holdings.

The Equipment Stocks find their chief inspiration in the orders for cars, locomotives, etc., placed by the railroads. These orders are dependent upon general business conditions. Consequently the equipment issues can seldom be expected to do more than follow the trend of prosperity or depression.

We have thus introduced ourselves to the principal speculative mediums and their families, each of which, upon closer acquaintance, seems to have a sort of personality. If we stand in a room with fifty or a hundred people, all of whom we know, as regards their chief motives and characteristics, we can form definite ideas as to their probable actions under a given set of circumstances. This would be impossible among strangers.

So it becomes the Tape Reader to acquaint himself with the most minute details pertaining to these market identities, also with the habits, motives and methods of the men who make the principal moves on the Stock Exchange chess-board.

In our next study we will discuss Stop Orders, the Limitation of Losses, Fixed Charges in Trading—and other vital questions.

(*Continued in the February* TICKER.)

How to Judge Value of Railroad Bonds

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BEFORE we can intelligently consider what a railroad bond is, and how to judge its value, we should have clearly in mind the fundamental difference between bonds and stocks.

A railroad bond is a promise to pay; a stock represents an equity. The distinction between bonds and stocks is, therefore, the difference between a promise to pay and an equity. Railroad bonds, real estate mortgages and loans on collateral represent somebody's promise to pay a certain sum of money at a future date. If the promise be good and the security ample, the holder of the promise should be paid the money when it is due.

Stocks, on the other hand, represent only a beneficiary interest— a residuary share—in the assets and profits of a working concern, after the payment of its obligations and fixed charges. The value of that residuary share may be large or small; it may increase or diminish; but in no case can the holder of such a share require anyone to redeem this share at the price he paid for it, or at any price. If a man buys a railroad bond of $1,000, par value, he knows that the road, if solvent, will pay him one thousand dollars in cash when the bond matures. But if he buys a share of railroad stock, his only chance of getting his money back lies in someone else wanting to buy his share.

Another point: If he buys a bond he becomes a creditor of the company. He has no voice in its management; but he is entitled to receive his principal and interest when due under the trust deed mortgage which the company makes to the trustee. On the other hand, if he buys a share of railroad stock he exercises his proportionate share in the management of the company; he shares ratably in its profits and in its losses.

A railroad bond is an obligation of a railroad company, usually secured (but not always), by a mortgage on railroad property. The bond runs for a certain length of time at a certain rate of interest.

Now it is evident that there are two accidental considerations which affect the price of that bond, as distinct from its intrinsic value; these are: First, the length of time which the bond has to run; Second, the rate of interest that it bears. It is evident, for instance, that a five per cent fifty-year bond, based on a certain security, will sell at a very different price from that of a three and one-half per cent twenty-five year bond based on the same security, yet the only difference is in the accidental conditions which are under the control of the board of directors when they make the bond.

Bond dealers, in order to eliminate these accidental features from the situation, have adopted a very simple device. To the bond dealer it does not make any difference how long a bond runs or how much interest it bears. He considers only the net yield of the bond, or, as bond dealers say, the basis.

If a bond sells above par, it is evident that it does not yield as much as its coupon rate; that is, if you pay 110 for a six per cent bond, it will not yield you six per cent, for two reasons. First, because there is ten per cent loss in premium—you pay $1,100 for a $1,000 bond, so you lose $100 of your principal. Another reason is, the six per cent which the railroad pays, is only on the par value of the bond—the coupons would be $30 each, two payments a year, or $60. For these two reasons a bond which sells above par does not yield as much as the coupon rate of the bond.

In the same way, a bond that sells be-

*A Lecture in the Course on Banking and Investments, Y. M. C. A., New York, Dec. 2, 1908.

low par yields *more* than the coupon rate If you buy a bond at 92 you are getting more than six per cent on $1,000. You also get eight points ($80), in excess of the value of your principal before the bond becomes due.

These "yields" that I speak of have been calculated with the utmost exactness. They are published for bonds running from six months to one hundred years at from two to seven per cent. It is only necessary to turn to these tables to find the net yield on a given bond at a given price. The net yield is usually spoken of as the "basis," and many bonds are bought in the Street almost invariably on a "basis" price.

A broker comes to us and wants to know what we will pay for general mortgage bonds of the Wisconsin Central Railroad. We do not know or care what the rate of the bond is. We say, "that sort of an obligation is worth a 5½ per cent basis." We do not care whether the bonds are 6s or 5s. If 6s, the price will be over par, if 5s, it will be less than par. Very often, in the Street, bonds are bought and sold on a "basis" price, dealers not even knowing what the figures will be until the transaction is cleared. A broker will ask, "What will you pay for such and such bonds?" We will reply, "A 4 (or 5) per cent basis." We do not know what the price is and he doesn't. Neither cares. All we know is that we are getting a bond at a certain basis where the income—the yield—will allow us to make something.

We come now to the principles which should be considered in judging the value of a railroad bond. There is no mystery involved in this question, although a great many people think there is. Any man of experience in the business world, who keeps in mind the fundamental principle which decides the value of all obligations, can easily determine the degree of security which attaches to any particular railroad bond, provided he has two documents; viz., the Mortgage and the Trust Deed which describes the property covered by the mortgage, and the last Annual Report which gives the financial condition of the property.

The general principle that I allude to is this: The value of any obligation, I do not care what kind of an obligation —any promise to pay—depends on the margin of security in excess of the amount of the loan. That principle is very simple in the case of real estate mortgages. If a man comes to you and says: "I have a mortgage of $20,000 which I want to sell you," your first question is, "What is the appraised value of the property?" If he tells you that the mortgage is secured on property worth $50,000, and he can prove it satisfactorily to you, the mortgage of $20,000 looks like a pretty safe investment.

The same principle applies to railroad bonds and all forms of obligations—the margin of security in excess of the amount of the loan. In a railroad bond this is not so easy to ascertain. You must get at it in different ways. I will suggest to you three points which cover this pretty well, and which will give you a line on the value of the principal.

In a railroad bond you must consider two things, for a railroad is an operating company—a going concern. You must know both whether the principal is secure and whether the payment of your income is secure. In the case of real estate mortgages, you do not know or care whether the property is producing any revenue or not. Of course, if it is, so much the better. Some people, however, do want to know this; they will not take a real estate mortgage unless it is on a revenue-producing property. They want a mortgage on a hotel, theatre, or an apartment house, where there seems to be some assurance that the interest on the mortgage will be paid. But in most cases, if a man has a pretty fair mortgage—that is, if he has not loaned more than two-thirds of the value of the property—he is pretty well satisfied that the owner of the property will hustle around and get the interest money. In a railroad it is not so easy to figure values. We have to consider the intrinsic value of the property—also the strength of the company as a going concern, in order to estimate how likely it is to continue to pay interest on the bonds.

In the case of a railroad property, these three things are to be considered, (1) the rate per mile, (2) the amount

of prior lien bonds, and (3) the amount of junior lien bonds.

When I say the rate per mile, keep in mind that principle I have alluded to, that the value of any obligation depends on the margin of security in excess of the amount of the loan. In the case of a railroad bond, the only way to figure is on a per mile basis. If a person should offer you a six per cent bond you would ask how large the issue is. If he says, "Three Million," he is not telling you anything, for you do not know what the value of that property is in excess of the three million that has been put into the railroad. You must ascertain from the mortgage how many miles of road this covers, then divide the total amount of the loan by the number of miles; this will give you the rate per mile.

Single issues of bonds vary from $2,000 to $3,000 per mile to $100,000 per mile. It costs so much to build the road, depending upon whether it is single or double track, the character of its business, whether it is located in a thickly or thinly settled part of the country, whether it is through flat, sandy country, or a mountainous country. Physical difficulties of construction have to be allowed for.

Take the Denver & Rio Grande. It is marvelous how they have constructed that road over Pike's Peak. You say that that road at $100,000 per mile is bonded too high. (It is not, however, bonded as high as $100,000 per mile.) One hundred thousand dollars per mile on that property would not be as high as $35,000 per mile on a property in a sandy country, where no bridges or fillings are required. (A bond man has to know something about the construction of property, the difficulties the engineers have had to contend with, and so on.)

You have to learn something about the traffic conditions of the territory. Of course, men might build a road, spend a great deal of money on it and get no traffic. Or, if the traffic would not earn interest on the $50,000 per mile that the road cost, it would be in a bad way. When it comes to judging the intrinsic value of a bond, it takes a good deal of experience in that line. It takes a knowledge of other roads and of other bonds to enable you to compare and contrast them.

That is the first question that occurs to you—How heavily is the road bonded? Say a road is down south somewhere—take the road that runs from Birmingham to Atlanta. You ask, "How much did the road cost?" The answer is, it is bonded for $25,000 per mile.

You say, "I do not want any of these bonds; the Atlantic Coast Line, which is a very profitable property, is only bonded for $20,000 per mile. If they can build a road at $20,000 per mile, I do not believe I want the other bonds. I would rather have the Atlantic Coast Line's."

In the east there is the New Haven road, bonded out of New York for $250,000 per mile. In looking into that property you compare it with the Pennsylvania, the New York Central, and other roads of the same standard. If you find that roads in this territory have run up pretty heavily in bonded debt per mile, you are afraid of them; if it is low, and most of the value of the property is in the stock, you think otherwise.

Suppose I offer you a $20,000 mortgage on real estate worth $75,000, and on which there is already a first mortgage of $25,000 (that would make $45,000), you would consider it a pretty good loan, but, of course, you can see that your mortgage is *not* as good as the other prior mortgage for $25,000—the man who holds the first mortgage has the best proposition. It is the same with railroad bonds. A railroad will sometimes put three, four, five or six issues of bonds on the same line. It makes a vast difference whether you are "next to the rails or next to the stock." Take the Erie, for example, a road running out of New York to Chicago. There are seven mortgages on that road. The first morgage issued by the Erie Co. is called the Prior Lien, but it is actually the sixth mortgage. The reason why they are called the Prior Liens is because when the Erie was reorganized it changed its name, and this issue of first prior lien bonds was made by the new company. There are six mortgages before that one. If you did not know this, you might think you were getting a good thing in the Prior Lien bonds.

The second point I wish to bring out is, that the amount of prior lien bonds on the same mortgage is a matter of the utmost importance. You must know how many there are, because they work against the security of your bond. Conversely, the amount of junior liens—the amount of bonds which follow the bonds that you have—works directly in favor of your bonds.

I was talking with a very successful bond buyer of one of the large insurance companies a while ago, about the International & Great Northern Railroad, which went into the hands of a receiver.

I said, "Mr. So-and-So, haven't you some of those bonds?"

"Yes," he replied.

"Losing any sleep over it?"

"No, not a bit," he answered.

"Why, how is that? I thought you had the Thirds.

"No," he said, "I have the Seconds."

He was not losing sleep because the third mortgage bondholders, in order to protect their interests, would have to "buy him in." He would get par for his bonds. It makes a great difference to bondholders whether there is anybody else behind them in a foreclosure.

Take the Pittsburg Terminal Company, which is also in the hands of a receiver. There is a first mortgage and a second mortgage issue. The second mortgage bondholders think they are going to get something—they *hope* they are. But if the road is put up at foreclosure sale, they have got to buy the first mortgage bonds off. The first mortgage bondholders you will see, are in a great deal better position than they are, because there might be nothing left out of a foreclosure sale after the first mortgage is satisfied.

There are, therefore, three things which concern the value of the property of railroads: the rate per mile at which the bond is issued, the amount of prior lien bonds on the same mortgage, and the amount of junior lien bonds. Those three considerations tell you the probable safety of your principal.

When it comes to the safety of the interest there are three more considerations: Earnings per mile, Net Income per mile, and Fixed Charges.

The average capitalization—stocks and bonds—per mile of all railroads in the United States for the year ending June 30, 1906, from the report of the Interstate Commerce Commission, was $87,936 per mile. That compares with about $200,000 in the case of English, French and German railways. The railroads are capitalized at a very much lower rate here than there.

Query: Does that include equipment?

It does and it doesn't. Some show their equipment in their balance sheet and some roads do not. That is a question of judgment with the individual road. Take the Pennsylvania. It has more equipment obligations than any other road in the country, and does not show a single one in its balance sheet. That is done in order to avoid the tax in Pennsylvania. They have a tax rate there of four mills on equipment obligations. The New York Central has recently done the same thing. They have put out a $30,000,000 issue—New York Central Lines Equipment 5s. These were issued on the Philadelphia plan. They did it in order not to show their equipment obligations in their balance sheet. On this plan the obligation is not an obligation of the railroad; it is issued by a trust company and guaranteed by the railroad. The equipment is purchased by a group of men and leased to the railroad, and the lease is deposited as collateral to secure these obligations; each one of these equipment obligations has an indirect lien on the equipment, so that the people who buy them are perfectly protected, and the obligation of the railroad is only a collateral one, that is, a lien on equipment but not by deed. A great many roads do not show any equipment in their capitalization.

The gross earnings of a road are very important. Of course, that carries with it the whole question of the territory the road is in, the diversity and the density of its traffic. You also have to consider the possibility of an increase in its traffic. Take a road which runs out west—a granger road, as the Atchison was several years ago. It made all the difference in the world to the Atchison whether they had a good corn crop in

Kansas or not. If good, the road made money; if poor, it lost money. If you have a road like the Pennsylvania, or the New York Central, which act as regular funnels (nearly all of the traffic of the country goes through these two systems), you will find that they have a tremendous diversity and density of traffic. Roads lying in the same territory have somewhat the same conditions to face. This makes a great difference when you consider the gross earnings of a road.

Gross earnings average from about $3,000 per mile to $40,000 per mile. The Pennsylvania has the highest gross earnings of any road in the country. Certain divisions of the Pennsylvania run so high as to make the figures appear almost marvelous. The average for the whole country is $10,460 per mile.

The net earnings of a road are found by subtracting from gross earnings its operating expenses, and sometimes its taxes. Frequently taxes are reported as expenses; sometimes they are reported as fixed charges. In order to compare two roads you must see that your taxes are put in the same place. Usually this depends upon whether the road wants to make a good showing or not. If they want their report to look well they put taxes in one place; if they want to pretend that they have not made much money, they put them in the other place. If they "pad" their fixed charges, then it will not look as if they were earning so many times their fixed charges.

The net earnings of a road are very important, because they carry a criticism of operating expenses. There is no point in railroad financing, even when a road intends to be perfectly honest, that is so hard to decide, as to whether a certain item should be charged to operating expenses or to capital. With the very best intentions in the world a board of directors often cannot tell.

We will say that a road has a wooden bridge over a certain river. It originally paid so much for the bridge, and charged it to capital, of course. There comes a time when the bridge is worn out, when it will not carry the heavy train-loads, and they are obliged to have a steel bridge. They pull down the wooden bridge and put up a steel one. This costs $75,000. The old wooden one "stood them in" $20,000. They do not earn one dollar more for having the steel bridge instead of the wooden bridge. The question is, How much of that $75,000 should be charged to capital and how much to operating expenses? Of course, the conservative thing to do is to charge it all to operating expenses. There are very few roads, however, that could stand such a drain. The directors might decide that as they already have $20,000 charged to capital from the old bridge, they will put in $30,000 to operating expenses and charge the rest ($45,000) to capital. In that event the new bridge costs them $65,000. The $30,000 charged to operating expenses is pretty heavy when you stop to think of it, yet they have charged their capital $45,000 and have nothing to show for it; that is, nothing that will produce a revenue. When it comes to considering the value of a road's bonds we have to know whether the management is "monkeying" with you or not.

The average operating expenses are about 66 2-3 per cent on steam railroads; it is less on tractions. If you find a road that is operating for 60 per cent it would indicate that the cost of conducting transportation is very small. It might mean that they carry big train-loads. It might indicate that the physical condition of the property is being neglected. It may mean, as in the case of the wooden bridge, that nothing is being charged to operating expenses and all to capital. It might mean that they have not made any repairs, such as replacement of ties, steel rails, etc. It may be that new capital has been issued and you have nothing to show for it. It is very important to find out which it is if you can. You cannot always tell from the report of a road; it then becomes necessary to find these things out indirectly.

When you find a road operating at 75 per cent, it looks very high. You then say that that road is operated inefficiently, or that there is a lot of graft of which people do not know; or it may mean that a whole lot of things which should be charged to operating expenses are charged to capital. Suppose they are building a branch. They may be

hauling a mass of material over their old line, and not charging any of the expenses of that traffic over their main line to the construction of the new line. Maybe they want to have that show small; they throw that all into operating expenses. (It depends upon whether the State Railway Commission is watching them closely or not.)

I had a case the other day of a road in Florida. Looking over the property and found that they had 450 miles of single track road, and that their expenses for maintenance of way were $670,000. I immediately said, "Here, what are you doing?" He replied, "We padded that because we did not want to show the earnings." The management had heard that the Commission was coming after them, and feared they were making so much money the Commission would make us reduce rates. They had put any amount of buildings on the property and charged it all to maintenance. That was a very conservative thing to do, but if I had found that the 75 per cent they were showing in their operating expenses was due to inefficiency in management, or to any crookedness in the handling of traffic, I would not have touched the stuff.

Net earnings per mile is an important figure, first, because it carries with it a criticism of operating expenses. The payments of the road have to be analyzed to show what they are doing with their figures. After a while you learn by experience how much it ought to take to maintain a road. One thousand dollars per mile for maintenance of a single track road is high maintenance; $750 to $850 per mile is good maintenance for a single track road, and about half as much more for each additional track. If you find a road that is running its maintenance up to $1,500 per mile, you know that they are padding their maintenance.

Fixed charges include interest on the bonds and on current liabilities, also taxes, if the taxes are not reported in operating expenses. Taking the fixed charges and comparing them with net income, there should be a good margin over and above. Of course, the same thing applies in the underlying bonds; the interest required may be earned ten times over, and their position is strengthened correspondingly.

Sometimes a road will own stocks in another road, and get a little indirect income from them. Net *income* means net earnings plus any other income the road may have. Net *earnings* are the gross earnings less operating expenses. Any other income beyond that figure gives what is called net *income,* and that is the net revenue of the road—that is what you have to consider. The average road is earning a little more than twice its interest charges. To put a bond in the first investment class it should earn anywhere from two to three times its interest charge.

(*Continued in the February Number.*)

The Record of a Novice

Twenty-five Successive Trades Showing a Profit
Some Criticisms and Suggestions

To the Editor:

It may interest some of your readers to learn how the writer, a guileless and as yet unfleeced Lamb, in less than twelve months succeeded in taking away $1,360 from Wall Street by petty operations.

Previous to the panic of last fall, I had never seen a certificate of stock and had no idea what a coupon bond looked like. I had never paid attention to the financial columns in the newspapers, because quotations and gossip of the Street were like so much Greek to me. But when the panic came, with its attendant tumble in prices, I thought I saw a good opportunity of increasing my little capital.

Following is a memorandum of my transactions. The amount of profits in each case I am quite sure of, but did not always record prices accurately:

		Bought.	Sold.	Profit.
20	Steel Com.	22¾	26⅞	72.10
40	Steel Com.	25	27	68.69
25	C. C. C.	54	56¼	46.88
50	Bay Gas	1¼	2⅞	35.00
5	N. Y. City 4½ bonds	107	108¼	59.37
1	Mex. Cen. 4% bonds	75	77	17.50
2	U. S. Steel bonds	88	89	15.00
5	N. Y. City new 4½s.	104¼	106⅝	100.62
25	Steel Com.	31¼		
25	Steel Com.	28¾	32¼	91.74
50	Steel Com.	32⅜		
50	Steel Com.	34⅜	33¾ (incl. div.)	30 25
50	Steel Com	34⅝	35 (incl. div.)	30.25
25	Steel Com.	35¼	35⅞	8.87
6	N. Y. City bonds	106⅞	108⅛	60.00
100	Steel Com.	39	40	72.51
5	Union Pacific Cv. bonds	92	93⅝	128.00
25	Steel Com.	42⅛	44¾	
2	N. Y. Cen. LS. 3½s.	82	83	17.00
50	Steel Com.	45	47¼	175.00
5	UP. Cv. bonds	94	96¼	
100	Steel Com.	47⅞	50	185.50
25	Steel Com.	53¼	55	33.87
100	Steel Com.	56½	57⅝	85.00
2	Union Pacific Cv. 4s	104½	106¼	30.00
				$1,363.15

Remarkable Series of Profitable Deals by an Inexperienced Trader

In all, a profit of $1,363.15, or 17 per cent on the capital employed. Certainly this is small potatoes to operators who are looking for big money in Wall Street, but it is amusing to beat the game, no matter how small the profit.

At no time was I taking any chances. The only rule I established for myself was never to let a profit get away, once it came in sight.

With due apologies to the Bulls and the Bears, and congratulating you on your clever little magazine, which has given me more than one good pointer, I am yours truly,

AN UNFLEECED LAMB.

Let us congratulate you, Mr. Lamb. May you always enjoy the felicity of wearing your own fleece.

A few suggestions should enable you to surpass this record in the near future.

Your capital evidently amounted to something over $800, and a number of your purchases were made on margin. In times of panic it is best to pay for your purchases in full and take away the certificates. We had a panic in March, 1907. If you had bought on margin then you might have been wiped out in the panic which culminated in October. If you buy stock on margin in a panic your broker may fail or your bank close its doors on the day you are called for additional margin. Of course, if you are already carrying stocks on margin, and you are unable to take them up, there is nothing for you to do but protect them. The buyer who enters the market at this point is free to decide as to his course. In the long run conservatism pays.

Having bought at panic prices it would seem advisable to realize that every panic is sooner or later followed either by another panic or a boom. Hence the largest profits are to be made by waiting until the big swings give you still better buying opportunities, or show you handsome profits on what you have bought.

Your initial purchase of Steel was dead right—no one could expect to get in closer to the bottom. The trade was evidently made on a 40 point margin. At 26⅞ you apparently took your profit and bought 40 shares on the reaction to 25. This proved correct, as you were able to turn it over at 27. The second trade was made on a 25-point margin, that is, your original capital and profits combined amounted to 25 points.

Then you grew more cautious, your next dealings being on bonds. There also you did very well.

After closing out the second lot of New York City bonds you began to buy back (at 31¼) the Steel common you sold at 27. On the decline to 28¾ you bought 25 shares more and on the rally added 50 shares, making 100 shares in all. Your resources at this point were equal to about 13 points on the 100 shares.

You were buying increasing quantities at higher prices, on decreasing margins.

Every Lamb does this. He voluntarily puts himself in a position where he can readily be sheared.

When Steel was 23 your margin was 40 points; with the stock nearly 10 points higher you reduced your protection by two-thirds. Had Steel declined to 23 again, you would have been forced out of some, or frightened out of all your holdings. An eight-point decline would have cost you $800—equal to all your original capital. If your broker was not willing to carry the 100 shares on a 5-point margin, you would have had no alternative but to sell. The chances are you would feared a further break to 20, and this fear would have made you unload at the bottom. Probably you would then have taken the remaining dollars, gone away and cursed Wall Street.

But you were lucky. Knowing nothing about the game, you were a bull in a bull market. This is the sole reason for your success. Unconsciously you were buying on a scale. You did not have capital enough for this—at least on the basis of 25 or 50-share lots every few points down.

Having sold out your 100 Steel at 32¼, you bought into it again at 33⅜ and 34⅝ before the dividend, and sold

it ex-dividend at an average price of 34⅜ for the two 50-share lots. Your average purchase price on these two lots was 34, and you were margined down to about 21—you were in a still more vulnerable position, owing to the higher level at which you went in.

Later, you bought 100 Steel at 39, with $1,400 behind it. At this point you were margined to 25.

After selling this 100 shares at 40, you evidently bought 25 at 2⅛ points higher, with the idea of averaging in case it went against you. This first lot showed a profit, which you accepted. Then you bought double the quantity (50 shares) at 45. Selling out at 2 points net profit (47¼), you again doubled into 100 shares at a still higher price. This lot you sold at 50.

At 53¼ (after a thirty-point advance), you started more scale buying, but the market let you out at 55. Then you went in for 100 shares at 1½ points higher than you sold.

You claim: "At no time was I taking any chances." We think you were taking great chances. By increasing your quantity and decreasing your margin you laid yourself open to a heavy loss on the first big shake-down. By attempting scale buying in 25-share lots you were bound to be sheared on a 15-point drop, which might easily occur after a 30-point rise. You have to thank fortune that no such drop did take place, but it will, sooner or later, and unless you change your tactics you will be wiped out—or nearly so. Your account is an ideal one for a bucket shop to "lay against"; the bucket shop has only to look over the transactions to learn that it will shortly acquire both the $800 and the $1,363.

You say nothing about Stop Orders, and we assume, being a novice, that you are not familiar with them. Hence your whole capital and accumulated profits were staked on each trade. Your average net profit was slightly more than a point on the quantity traded in. To make this one point you risked from 12 to 40 points. Anyone who took the opposite side of your trade would be risking one point to make from 12 to 40.

Prospective profits should be in proportion to the risk. If you venture 20 points margin, your profit should be 5 to 10 points, otherwise the risk is not justified.

Operating expenses in speculation include losses, commission, interest, tax, and the "invisible eighth" (see p. 16, Vol. 1, No. 4). These amount to nearly ½ per cent on each trade. To operate for a point or two, therefore, does not leave margin enough on the profitable trades to offset the operating expenses on all trades.

Of course if the market kept on going up forever, your method would win out. We have had an extraordinary advance, and you have been lucky. Without knowing the game you have been persistently bullish on Steel from 23 to 57. This is proved by your purchases around 23, 31, 35, 39, 42, 45, 48, 53 and 56. Had you held to any one of the round lots you bought your profits would have been much greater. Anyone who bought Steel when you sold, and sold it back to you when you wanted it, would have cleaned up more than you did. The lesson from this is: Don't take a profit because it is a profit; make your calculations and sell if you think conditions justify; if there are reasons why you may buy the same stock at a higher price, these reasons surely favor your holding on to what you have.

If you are trading for a point or so, we urge you to use a stop order. Otherwise the day will come when you wil find that your present profits have merely been *loaned* to you.

Please do not misunderstand our criticisms and suggestions. You have done well—mighty well—to turn a profit in each of twenty-five successive trades. But it has been more due to good luck than good management. If we were to pat you on the back and say, "You are a great man," it would be doing you an injustice, for

"'Tis an old maxim in the schools
That flattery's the food of fools."

We advise you to quit trading right now and spend some months in a careful study of fundamentals—commer-

cial, financial, and technical. Learn the factors underlying the great market swings; how money rates affect prices of securities; familiarize yourself with the character of the various securities; investigate the ways and methods of successful traders; in brief: Learn the Business of Speculation as you would learn any other business.

You will then see the folly of the inverted pyramid, also the wisdom of making your heaviest purchases on panic days and gradually tapering off commitments as the market approaches its apex.

[Note: If other friends will write us their experiences, we may be of service.]

Systematic Bond Buying

From a Recent Circular by N. W. Halsey & Co.*

EXPERIENCE teaches that a systematic policy is conducive to the best results in every department of business life. It is a logical conclusion that a systematic policy of *investment* will insure better results to the investor.

The subject is properly divisible into two parts: the accumulation of the bonds; and the distribution of the funds over different issues.

The business or professional man or woman whose income exceeds his or her requirements is likely to have more money safely *invested* at the end of one or five years if savings deposits are made or securities bought with regularity.

Savings banks furnish an abundance of evidence that, other things being equal, the customer who deposits regularly every week or every month usually has a larger balance at the end of a given period than the customer who follows no regular plan of saving.

Thousands of men out of their salaries have acquired homes through obligating themselves to make regular payments where otherwise they testify to their belief that the funds would probably have been expended without their receiving permanent benefit. By contrasting the experience of such men with the experience of others similarly situated who have lived from month to month without thought of the future we are forced to recognize the wisdom of system in surplus accumulations.

We have clients of moderate income who set aside a certain percentage of their income to be sent to us for the purchase of bonds and over a period of years we have seen their holdings steadily develop to the point where, in some cases, the clients now have a regular income sufficient to insure their independence.

Among these will be found business houses which buy bonds for reserve purposes. In some cases these clients have adopted the policy of regularly sending a check each week or month, and when the amount to their credit reaches $1,000 or $5,000, selecting suitable bonds to put away in their strong box. One such concern recently stated that this policy had not only provided a surplus, safely and advantageously invested, yet instantly available for conversion into cash if required, but that they considered themselves ahead most of the amount as they had not missed the weekly payments and otherwise the funds would probably have been largely dissipated in the conduct of their business.

Careful investors even in so safe a

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field as seasoned bonds should follow more or less closely a systematic policy of diversification which distributes the funds over different classes of bonds and different communities.

The individual purchases high-grade bonds primarily because he wants his surplus invested in *safe* and *convenient* form.

The field to select from has so wide a range that there is no need of confining the investments to a single issue or a single community. On the other hand, additional protection may be derived through diversifying the investments.

The leading investment bankers have attained a high degree of expertness in the selection of investment issues, and as far as human judgment can, in the surrounding of their securities with every safeguard. Human judgment, however, has its limitations—it cannot foresee what are known as "Acts of Providence." Also, over a period of years, conditions in a given community may change in a manner impossible to anticipate, and thereby weaken the securities of a property serving that community.

This need not result in loss to the investor, however, if he deal with the right kind of investment bankers by reason of the protective service which such a banker will render.

There are two principal advantages accruing from the distribution of funds over different classes of bonds and different communities.

First. Unforeseen conditions, which may temporarily weaken bonds of a property in a given locality, are not likely to affect other securities which the investor holds so that the safety of his fortune and the income which it yields is not appreciably impaired or inconvenience caused.

Second. Through diversification the investor can obtain a higher average yield with the same degree of safety. This fact has led many investors in recent years to diversify their investments where formerly their fortune was confined to a very few, in some cases two or three, standard issues. Owing to the increased cost of living and the resulting necessity of larger incomes, these investors have consulted their investment bankers for some method of increasing their income without impairment of safety. Diversification has been the solution.

The arguments for diversification apply with equal force to nearly all investors regardless of the size of their surplus.

We submit the following general plan of investment distribution as the best for the average individual. In this discussion we do not mention specific issues, as naturally the selection will depend upon what is available and is most attractive in the class required at the time the investment is made.

Following is a plan of diversification calculated to afford the widest distribution, coupled with safety, and the highest average yield consistent therewith:

Distribute the investment over three classes:

Class I. Invest one-third in Municipal and Railroad Bonds which are legal for Savings Banks and Trustees in New York, Massachusetts, and Connecticut. This amount may again be divided into thirds; part going into Municipals; part into first mortgage Railroads; and part into other underlying Railroads.

Class II. Invest one-third in Municipal and Railroad Bonds of assured safety and market, but which yield more liberally than Class I.

Class III. Invest one-third in Public Utility Bonds of assured value. Of this amount, one-half may be placed in marketable first mortgage bonds of transportation, lighting and power properties which have demonstrated their stability and earning power. The other half may be placed in similar issues, including telephone and irrigation bonds, of much narrower market but higher yield, which are purchased with a view to holding to maturity.

In following this plan but a small percentage of the total resources need to be placed in any one issue, class of issue, or locality. For a man whose investments total $100,000, as a rule, we would recommend from $5,000 to $10,000 as a maximum in any one issue. Other amounts in proportion. As before suggested, in many instances where special conditions govern, a modification of the plan would be desirable.

Points for Brokers

A Unique and Impressive Market Letter on Atchison

By E. W. WAGNER, Chicago Board of Trade

THE Atchison's Atlantic, Pacific and Prairie type, pony-truck, triple-driver-compounds thunder their way through a fairyland of development. Countless acres, touched by the wand of the new settler, are yielding their millions. Meats, lumber, grain and cotton—the Atchison pierces all territories.

East, the shuffling millions strive at arm's length. West and southwest, where the Atchison Expresses blaze electrically through the twilight, the great romance of the Empire lies, scarcely scratched.

The Atchison territory is new. New towns will quicken. New furnaces will roar. New mines will be sunk in a night. New banks will be organized. Energy—progress—optimism. The smoke of a million chimneys—the rattle of numberless threshers—the hum of the harvest song. That is the Atchison domain. Present and future are limitless. A mellow, brimming, prosperity-blent land of opportunity.

In the higher prosperity of 1909-10 Atchison common is destined to sell from 115 to 120. The five-year swing in this security includes a low of 54 in 1903 and a high of 110½ in 1906.

The low point during the panic of 1907 was 66⅜. Dividends on the common have been paid since 1901. In 1907 the rate was marked up to 6 per cent annually. There was a reduction to 5 per cent to meet the hard times.

Since E. P. Ripley became president in 1896 the road has doubled its gross results. Present gross earnings are at the rate of around $70,000,000 annually. The company employs 55,000 men.

The road, while figuring as independent, is swayed by "mixed control." It is sufficiently independent, however, to constitute one of the "Big Six" systems. It is described as the one "juicy persimmon" left in the list of rails for control of which there will yet be a "big contest."

The Atchison is alone in the possession of a Chicago Terminal and a line that pierces the Golden West through and through into San Francisco—tapping the Orient direct. It is a competitor of the Gould Lines, the Burlington, the Alton, the St. Paul and the Rock Island. Its stock values will one day equal the highest of the Hill or Harriman lines.

In the glory of its San Francisco line, it grapples with that giant the Southern Pacific in a friendly business way. The future of the Atchison is to colonize its territory and spread the use of irrigation.

The Atchison "freighters" rumble through a never-ending territory, now being settled up by the future land barons of America. The products of these "Farm Samsons" must be moved to market by the Atchison. The steady prosperity of the farmer is unlimited—consequently the future of the Atchison is unlimited.

If the Atchison is finally absorbed by the mighty Pennsylvania—the mightier Penn-Atch system will drive its "Compounds" from Atlantic to Pacific.

The Atchison for the year ended June 30, 1907, earned 7¾ per cent on its common stock during a period of ten months depression. Its operating expense was cut 14 per cent during this fiscal period. The previous fiscal year showed 14 per cent on the common.

Since July 1, Atchison earnings have been at the rate of around 9 per cent on the common.

The outlook is for larger net results. The road is in shape to handle extra business with a small proportionate increase in net expenses. The purchase of Atchison for investment, therefore, seems wise.

The Investment Security Business

How It Has Developed. Outlook for the Future

By THE BOND MAN

TWENTY years ago the investor coming downtown via the Sixth Avenue Elevated would have landed in an old rookery known as "The Manhattan Arcade." This was a building several stories in height, and about as disreputable looking, inside and out, as one could imagine. Jay Gould at one time had his offices there. So did Russell Sage, and a number of brokers prominent in their day.

Emerging into Broadway and standing on the corner now occupied by the Empire Building (which has since replaced the Arcade), he would have faced a row of dilapidated brown stones, four or five stories in height, and filled with brokerage offices.

To the right, past Exchange Place, stood the old Exchange Court Building, a barn-like structure, containing a maze of wooden stairways lighted by an occasional gas jet. Beyond were more tumbledowns, occupied by pool rooms, bucket shops, gambling houses and gin-mills—the frayed fringe of the Street.

Turning down Wall Street, a few ten-story "skyscrapers" loomed large, but the rookery still predominated. New Street looked like the main thoroughfare in a country town—the rear of the Broadway brown stones offering a no more imposing view than their facade. Speaking tubes connected some of the offices with the sidewalk. The rear of the old Stock Exchange resembled a skating rink, and the battery of wooden doors flapped incessantly.

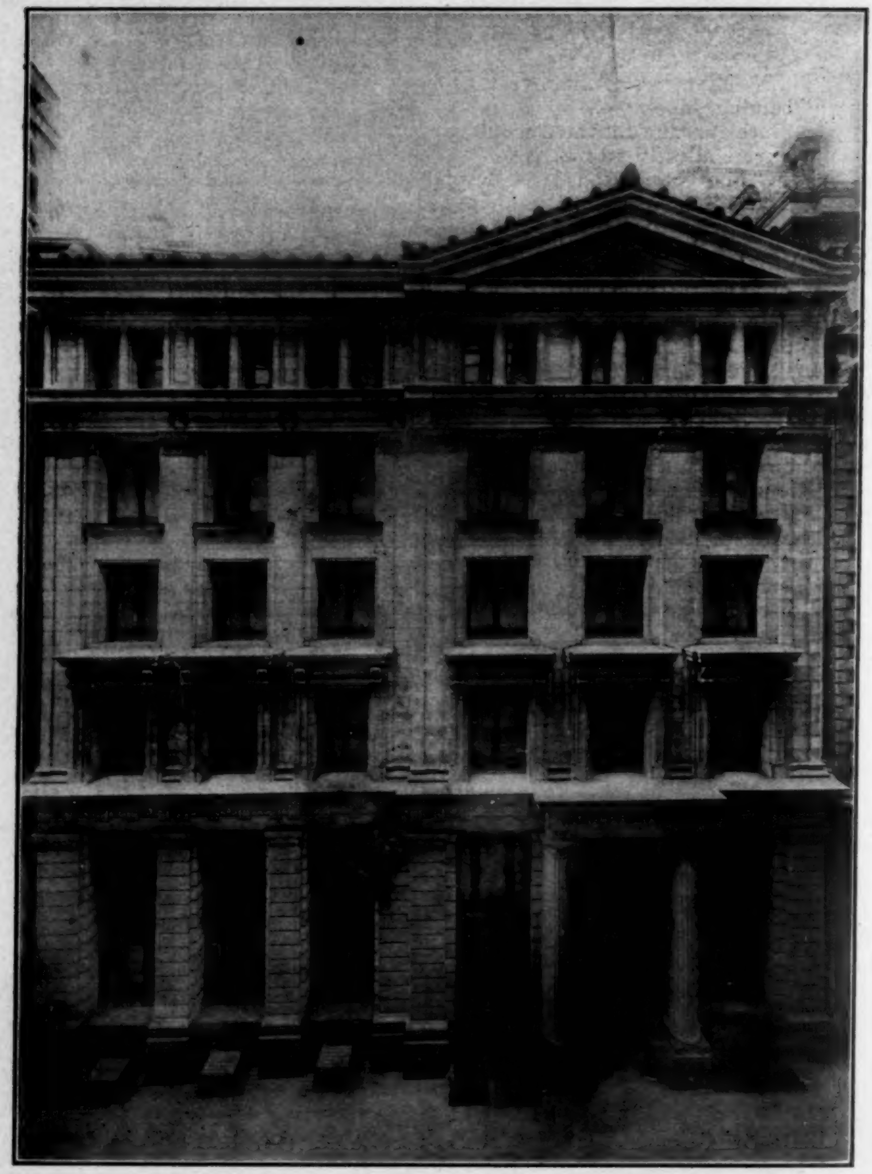
Broad Street presented two structures that are still unchanged—J. P. Morgan & Co.'s, and the Mills Building, the latter being in its day one of the finest office buildings in the world. Elsewhere on this thoroughfare, and further down Wall Street, were more brown stone, brick, or wooden tumbledowns.

On all sides one's eye met the sign, "Bankers and Brokers," this being the style by which both reputable and dis-

Speyer & Company's Building

reputable houses were known—it seemed more dignified than the ordinary term, "Stock Brokers." Yet brokerage was the principal business in Wall Street in those days.

The Bond Business was largely in the hands of Stock Exchange members and chiefly confined to such issues as were listed on the Stock Exchange. A few houses like Vermilye & Co., and



Courtesy Whitney-Steen Co.

Harvey Fisk & Sons' Building. One of the New Structures Owned and Occupied Exclusively by One Firm

Harvey Fisk & Sons, dealt largely in Government Bonds; certain others handled Municipals; here and there would be found a firm of Bond Brokers. As a rule, the man with $10,000 or $100,000 to invest, came down to his broker's office, asked his opinion or advice, searched through the Chronicle or Poor's Manual for confirmation and finally made his choice from some of the issues on the official bond list.

Such bond houses as there were had no statistical departments and few salesmen; they issued the crudest kind of literature and employed no scientific methods in reaching the investment public.

Evidently some one suddenly awoke to the idea that this was a great and growing country, and that the field for investments would, as the people grew richer, expand to enormous proportions.

There was a sudden change of front on the part of certain houses. The sign, "Bankers and Brokers" began to disappear from the windows and signboards along Wall Street; in its place was inscribed these words, representing a new industry:

INVESTMENT SECURITIES.

Here the path of Wall Street history diverged; houses catering to the speculative tendencies of the public also dropped the style "Bankers and Brokers," and adopted the more definite and distinguished appellation,

MEMBERS OF THE NEW YORK STOCK EXCHANGE.

By the prominence given to these respective titles one may recognize the character of the principal business done by any Wall Street firm.

Just as the old rookeries have been replaced by modern steel skyscrapers, so have modern methods and conditions revolutionized the business of dealing in Investment Securities.

The history of one of the houses which at this period launched into this field, is representative of many. Two young men, wideawake, ambitious and enterprising, one of them connected with a large banking house, became impressed with the possibilities in this line. Their combined capital amounted to $25,000, and with these slender resources they formed a partnership.

Their first Bond Circular comprised, in the main, offerings of high grade issues listed on the New York Stock Exchange. They did not, of course, own all the bonds listed in the circular, but depended upon buying them (in case orders were received), at a fraction below the offered price.

Their business was successful from the start. They advertised and circularized incessantly. Once a prospective customer's name was placed on their list, its owner was never permitted to forget that the firm was in the bond business and looking for his investment orders.

So rapidly did the dealings of the house expand that it was shortly able to swing whole issues on its own account, besides taking a share in many large underwritings. Today it is one of the leading bond houses in the Street; its annual turnover runs into many millions; its enterprising founders have become millionaires.

Many of the houses which occupied small and obscure quarters during the period above described, are today permanently located in their own private buildings—monuments to the first great forward step in an industry, the gross output of which grew from $197,000,000 in 1885 to $980,000,000 in 1905—400 per cent increase!

Many factors contributed to this result. The country needed more railroads; existing roads required double tracking; branch lines were demanded; newly opened territory clamored for transportation; horse car lines were to be electrified; interurbans to be constructed; electric light and power plants offered great opportunities; telephone lines were to be built. All these required capital, and to Wall Street, the country's money reservoir, borrowers must come. And come they did, bringing mortgage bonds, collateral trusts, equipment notes and debentures. In the majority of instances the securities offered withstood the acid tests of the bond experts, and the corporations departed, supplied with funds for the development of their various undertakings.

The Bond Expert, when considering

a new issue, has before him the important question: If this issue proves sound enough for us to buy with our own funds, can we find a market for it among our clientele?

The question was answered in the affirmative; throughout the country there was found a growing class of individuals, estates and corporations with a hundred thousand dollars for investment against every twenty thousand available in former years. The rich were growing richer—millionaires were becoming multi-millionaires; insurance companies had ten instead of two millions for investment; trust companies and trustees were in the market for larger amounts; thousands of people who never bought a bond were taking away $5,000, $10,000 and $25,000 worth of railroad, municipal, and public utility issues.

As the new properties were thus financed, built and developed, new millions in values and property were created. A promoter conceives the idea that a certain territory can be tapped by means of an interurban railway. $250,000 capital is required. To raise this amount bonds are pledged, and $500,000 stock is issued, part of which goes to the backers and part to the promoters. The enterprise is a success. The bonds pay their interest regularly and sell at par. The stock pays 10 per cent, and sells at 125—value created, $625,000. Property along the line increases $500,000, a total increase in wealth of $1,125,000 growing out of the promoter's idea. The stock has both a market and a collateral value. Many of the farmers sell out their lands, invest their money in other enterprises, or put it into savings banks and trust companies, where it is invested for them. The $1,125,000 thus finds its way into channels which make possible the development of other undertakings, more wealth is created, and still larger funds become available for investment or other purposes.

This process is going on throughout the continent and is one of the reasons for the tremendous expansion in the Investment Industry.

The desire of the public to know more about the subject of Investments is one of the most gratifying features of the situation. The Bond Houses have endeavored to fill the vacuum by advertisements which amount almost to editorials; booklets, special letters, circulars and matter are prepared at great expense; salesmen are given thorough courses of instruction. Magazines have taken up the work, and the How, Why, and What of Investment is being given wide publicity.

As the country grows in wealth and population Investment is destined to become a more exact science. The Investor class will have both an increasing amount of funds for this purpose, and more leisure in which to study, select and discriminate.

Until recent years there was practically nothing to be had in the line of educational literature or the subject of Bonds. Frederick Lownhaupt, in the preface to his recent and highly valuable work entitled, "Investment Bonds,"* says:

"Some months past, a prominent banker of this city delivered an address touching largely on Investment Bonds, in the course of which he was requested to mention a work devoted entirely to that subject. The reply was that he knew no book of this nature, and he believed that none existed. A review of current financial literature confirmed this belief."

American investors include not only men of millions; the buyer of one share of stock, or a single $1,000 bond, is in every sense to be reckoned with. In fact, he is catered to by the great majority of Bond Houses, who realize that he will some day perhaps have $10,000 or $50,000 for the same purpose.

Looking back over the past, and using it as an index to the future, one may easily calculate that the Investment Security Business is in its infancy; that the demand for Investment Securities will expand with increasing rapidity during the next two decades. If a proportionate increase is shown, the volume of bonds and similar securities passing through the Bond Houses will, within a few years, run into billions a year, and the great public which now absorbs two-thirds of the output will demand a still larger percentage as true Investment knowledge comes more and more into their possession.

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*See list of books on another page.

Ticker Talk

THE "failure" of John A. Boardman & Co. has relieved the Street of a canker.

This firm was an outgrowth of the Haight & Freese bucket shop concern, which "laid down" years ago. Advertising extensively, and under the guise of membership in the Philadelphia Consolidated Exchange, Boardman & Co. did a land-office business for people who "didn't know."

If we remember correctly, the Exchange in question, when established, offered its seats at the staggering figure of $100 each. Financiers of the Haight & Freese stamp simply climbed over each other to get in on the ground floor—what was the use of paying $70,000 for a New York Stock Exchange seat when you could buy several hundred Philadelphia Consolidated seats with the same money?

After Hate & Freeze had passed away, as all well-regulated bucket shops do when the money goes out too fast, creditors were approached by John A. Boardman, who seemed especially anxious to collect and take care of their "interests." Five hundred Easy Marks thus bound themselves not to make trouble, and their case is still sleeping in the same solicitous hands.

Boardman & Co. were about the only Philadelphia Consolidated house that were at all prominent in New York. They offered to send prospective victims a book bearing the title, "Success in the Stock Market."

Upon opening this priceless volume, Vic. finds to his astonishment that "The world owes every man a living," and that in order to acquire and enjoy what is coming to him, he has only to "take advantage of the ever-present opportunities offered him—opportunities which open up a new vista of probabilities."

Here Vic. begins to suspicion that these people are his friends, and that their book will explain to him just how to get rich.

And it does, too! Right on page 13 it says: "If you had put up only $500, on 100 Union Pacific at 140, you would have $2,000 profit at 160; but at this point your broker would have told you to just hang on. Following his directions you would have stayed with it till it soared up to 180 or 190, and taken your profits. Thus your initial investment would soon grow into several thousand dollars, and enable you to take advantage of other opportunities to which your broker called your attention."

That's all there is to it—you have merely to follow your broker's advice!

On the next page there is this astounding announcement: "If you get the right conception of the manipulator's plan, you can usually judge a day or two ahead when an upward movement is likely to meet with a temporary setback," etc.

So it seems that to win success in the Stock Market, you had only to open an account with John A. Boardman & Co., and read their book.

How unfortunate for the public that the house was obliged to close its doors!

Some months ago, when Frank A. Munsey told how he had started his publishing business on a few thousand dollars, and after running the "Argosy" along for some years, found this magazine $100,000 in debt, he gave only one side of the story.

He neglected a little matter of $100,000 profit which he made in the stock market about this time, without which we might never have heard of Munsey's Magazine.

Munsey is a "Specialist in Panics." When Steel was kicking between 25 and 30 last year, he took on something like 50,000 shares. This purchase now shows him over a million dollars profit.

He had the money; he had the nerve, and he "knew when." That's all there is to the game anyway.

The Public and Its Holdings

How the Wall Street Gun is Handled

ONE of the popular magazines recently presented a series describing the Vanderbilts, Carnegie, Ryan, Frick, and others as the "Owners of America."

Frank Fayant, in *Appleton's* for December, jumps into the ring and declares that the real owners of America are not a few multi-millionaires, but two and a half million American investors. Also that twenty million Americans are indirect partners in corporate ventures. Says he:

"The popular fallacy regarding the ownership of the corporations has been in part due to a very natural misconception. The rapid growth of industrial 'trusts' and railroad combinations in the past ten years has centralized control, and the careless observer has mistaken this for centralized ownership. But the centralization of control has been accompanied by the spreading out of ownership.

"The Steel Corporation concretely illustrates this among the industrial combinations. Before the formation of the steel 'trustlets' of the nineties, many of the mines, mills, and furnaces were privately owned. A few rich men owned these independent industries. The public did not participate in the profits, except in the form of wages. Now, with centralized control, 110,000 investors are partners in the steel business and participate in the profits. A good many investors, it is true, paid high prices for their interest, but as many more, who had the patience to wait their opportunity, paid very low prices—witness the 27,000 new partners who joined the enterprise in the panic of 1907.

"Southern Pacific is a good illustration among the railroads. When this was an independent property under the control of the Huntingtons, it did not have 3,000 shareholders. Now that it is part of Mr. Harriman's railroad empire, the bulk of its stock is divided among 15,000 investors, and 15,000 more Union Pacific shareholders participate in the earnings of the big block of its stock held for their benefit. In a word 3,000 partners received no dividends in the days of the Huntington ownership, and 30,000 investors now divide $17,000,000 a year under Harriman's control."

In discussing this subject Mr. Fayant brings out the following interesting figures, viz.:

Pennsylvania has increased its stockholders' list in the past four years from 42,100 to 59,200; Atchison, 17,500 to 25,000; New York Central, 11,700 to 22,000; Southern Pacific, 4,400 to 15,000; Erie, 4,300 to 10,000; St. Paul, 5,800 to 10,000—in all, these seven roads have shown an increase of stockholders of 65 per cent.

Seven big industrials have the following number to their credit:

U. S. Steel	110,000
Am. Telephone & Tel.	25,000
Am. Sugar	20,000
Amalgamated Copper	18,000
Pullman	13,500
Smelters	9,400
Standard Oil	5,500

The average number of shares held would seem to show the odd lot investor as the most important factor in the absorption of thoroughly seasoned corporate issues.

Some examples are:

	Average Holdings. Shares.
National Bank Stocks	28
N. Y., New Haven & H. R. R.	39
Am. Sugar Ref. Co.	45
Pennsylvania R. R.	55

Mr. Fayant claims that the old axiom, "The public buys at the top and sells

at the bottom," was shattered in last year's panic; that the small investor, having grown infinitely wise in the past four years, now buys at the bottom and sells at the top.

We beg to differ.

The public which came into the Street during the 1907 panic was made up of two classes—those who had been there before, and those who had not. The first class comprised the more or less experienced investors and speculators, who knew what and when to buy, and how long to hold it.

The other included savings bank depositors, men, women, clerks, business men and small capitalists, who were aroused into action by the low prices and who bought promiscuously on the advice of their broker or newspaper, and without the slightest knowledge as to what they were doing.

How do these people stand today? The ten or twenty-share lots bought outright were either sold many points below this level, and the proceeds used to margin other and larger purchases, or the original shares are now "up" as collateral on marginal trades. In other words, the new crop of Investors have now become Speculators, and are at this moment building pyramids which will surely crumble and crush them.

An inspection of brokers' books today would show that there are thousands of top-heavy speculative structures being erected all over the country by people who began with a few hundred dollars. We know of many cases where the first purchase was an odd lot, and paid for, and profits having accrued, the owners increased their interest and are now carrying several hundred shares on a five or ten-point margin.

No. The new Public is just like its predecessors—it *is* buying at the top and it *will* sell at the bottom. He who buys 20 shares at par and 100 shares of the same stock at 180 cannot be considered a buyer at the bottom, nor a seller at the top. And this is what that new Public—vintage of 1907—is doing right now.

This new Public comes into the market every year; some years in greater force than others. Its ranks are recruited from all classes of men and women, who think the only requisite is the possession of a little cash. They mostly learn how to handle the Wall Street gun by peeking down the loaded barrel and tickling the trigger with their toes.

Bang! A Twenty-Point Break!

The victim finds himself minus an eye, or with a few slats kicked in.

Thereafter he don't generally take such chances. In time, if his money holds out, he will become either a seasoned speculator or an investor.

The Public and the Wall Street Gun

It is customary when the public reads something about itself to say: That means everyone but me. But see here, Mr. Man, we are talking to YOU about YOU, and if we can wake YOU up to the enormous possibilities for profit, providing YOU play it right, and the tremendous risk that YOU run when YOU go at it haphazard we shall feel that our work has not been in vain.

Playing panic is the simplest and surest way for the real investor to make big money.

John D. Rockefeller and J. P. Morgan play panics.

But what they buy in panics they sell in booms. They don't dump it out on the first rally and then take on ten times as much, when prices are fifty points higher.

They know how to handle the gun, they can aim straight, and they hit the mark.

No, Mr. Fayant, the Public has shattered no Wall Street axioms. When it does, we shall see panics that are less severe, because fewer people were overloaded. Our booms will be more in keeping with reason and common sense. Brokers will retain their clients for years, instead of changing them off for new ones every few months.

At present we cannot catch even a glimpse of this Elysium. Each new Public manifests the same desire—it wants something for nothing, and quickly, too.

Illegitimate Bond Houses

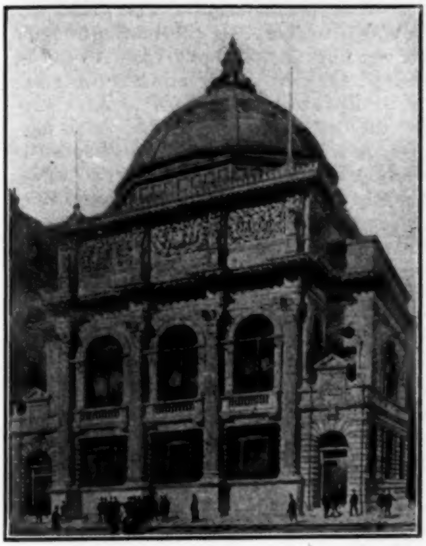
THE principal bond houses in New York have received a copy of a circular issued by F. J. Lisman & Co., asking their cooperation in a movement against crooked bond dealers.

As is explained in the letter, the idea is to establish a bureau of investigation, supported out of a common fund, which will investigate the doubtful offerings made to the public and expose them where suspicions are confirmed. The letter which has been sent to the bond houses says in part:

"Within the last year there have been several failures of bond houses, which had been expected for the last five years, simply for the reason that most of us knew that these firms were doing business on improper lines; that is, they were selling their goods by gross misrepresentation. I might refer to a certain firm which placed trolley bonds and to another one which was active in water power and other securities. Another firm, which to all our regret is still alive, is endeavoring to sell bonds on jackrabbit railroads in the Southwest. Considering the opportunities, the number of bond houses doing an illegitimate business is very small, but the damage done by them to those who are giving the best of their life in the shape of knowledge, experience, and energy to a legitimate business, which involves great responsibility, is great, because distrust is created, and many of the ignorant, innocent purchasers of their bonds believe all houses who employ sales belong to the same class.

"I should like to put the thought before you of having fifty or more of the bond houses join in paying, say, $100 a year, which fund may be used in part toward employing some lawyer, who at the suggestion and with the cooperation of the bond houses will investigate propositions which appear as shady, and, making sure of the facts, give same to the newspapers, which will be glad to avail of this opportunity of giving such matters wide publicity.

"Concisely, I suggest the formation of an anti-fraud society, which will investigate doubtful concerns, and if necessary eliminate them by publicity."



The New York Clearing House and Its Functions

By S. H. NORRIS

FEW people in or out of Wall Street have a correct idea of the New York Clearing House and its relation to the banking and business interests of the country.

Its importance is especially in evidence during times of financial panic, such as in 1893 and 1907. By its dominating power over all the banks, and its ability (in a sense) to create funds, through the issue of its own Certificates, it is able at such periods to tide the banks over until normal conditions prevail.

The original purpose of the Clearing House was to establish a place where all banks holding membership could meet and make daily settlements. Under the old method, each institution sent its messenger to every other bank; the messenger, upon arrival at each, would pass ten, fifty, or a hundred checks through the paying teller's window and receive the cash therefor, just as though he were an individual with one check. This involved much traveling by the messengers, and great risk in handling and carrying large sums about the streets—a cumbersome and unnecessary system. The present method is extremely simple, but not generally understood by the layman.

Suppose there were but three banks in a town, each of which received, during the day's business, a certain number of checks drawn upon the other two. The messengers from all three banks would meet at a common place, present to each other their respective checks for payment, and after comparing notes would find the record to stand:

Bank A owes B	$10,000
Bank B owes A	8,000
Balance due B from A	$2,000
Bank B owes C	7,000
Bank C owes B	6,000
Balance due C from B	$1,000
Bank A owes C	5,000
Bank C owes A	4,500
Balance due C from A	$500

The balances will then stand:

	Dr.	Cr.
A	$2,000 (B)	
A	500 (C)	
B		$2,000 (A)
B	1,000 (C)	
C		500 (A)
C		1,000 (B)
	$3,500	$3,500

The final settlements are then made by each bank having a debit balance paying the amount into the Clearing House and each with a credit balance receiving the amount from Clearing House, viz.:

A pays into Clear. House.	$2,500	
B receives from Clear. H..		$1,000
C receives from Clear. H..		1,500
	$2,500	$2,500

This is practically what takes place every business morning at the Clearing House building on Cedar Street, New York. Here all the principal banks and trust companies in the city, or their representatives, meet and settle their obligations.

Mr. William Jay Gilpin, who has been assistant manager of the Clearing House for a number of years, thus describes the operation:

"Each bank member has a desk on the third floor of the Clearing House. The desks are numerically arranged in the order of the date of the bank's organization for the original members, and of the bank's admission to the Association for those joining subsequently. There are in fact fifty members, forty-nine national and state banks and the Assistant Treasurer of the United States at New York, who has also a desk and clears through the institution. At each desk, every business morning, two bank clerks are stationed, one, the outside or delivery clerk, and the other, seated inside, the settling clerk, who receives the checks drawn on his bank. The delivery clerks carry in boxes the items for exchange. These are made up in fifty-three envelopes, each one bearing the name of the bank on which the checks are drawn, and that of the delivery bank, then follow a list of the items enclosed, and the total against the bank. Each settling clerk brings with him to the Clearing House a sheet containing the totals of his charges against the various banks, the aggregate of these totals being the amount of his credit exchange, or his 'amount brought,' as it is technically known. This amount is reported to the manager at the opening of business, and it is entered to his bank's credit upon the Clearing House proof-sheet.

"At one minute to ten o'clock the manager or his assistant calls the assemblage to order and notes if all the banks are represented. A late bank is fined. After making any necessary announcement pertinent to the business of the banks, the signal is given for the delivery clerks to begin the exchange. These clerks move simultaneously to the left to the desks adjoining their own respectively, deliver the package of checks, drafts, etc., drawn on these banks, and deposited in their own, and after receiving a receipt for the packages from the settling clerks, move forward to the next desk, and so on around the room until their own desks are again reached; the delivery clerk for each bank having delivered fifty-three packages of checks, and each settling clerk consequently having received the same number, nearly three thousand packages have thus been delivered in eight minutes, the usual time of effecting the work. The packages received are immediately taken to their banks by the delivery clerks, and there the tellers scrutinize the signatures of the drawers and pass upon the validity of the checks, after which they are passed to the bookkeepers, who look out that sufficient balance exists to meet the charge against the account in each case. A check not good must be returned by hand the same day directly to the bank that sent it, and the latter must refund the amount in lawful money on demand; but for the sake of safety, 'not good' items are generally redeemed with charge tickets which are paid through the exchanges on the following day.

"After the delivery clerks have departed, the settling clerks foot up the amounts they have received, and report the result of their transactions to the Clearing House proof clerk. On the sheet of the proof clerk are entered the amounts brought by the banks, also the amounts received. The resulting debit or credit balances."

A bank may hold checks on other banks to the amount of $1,000,000, but there may be checks *drawn upon it* aggregating $1,000,100. In such a case the handling of $2,000,000 is avoided by the Clearing House system, the simple payment of $100 completing the clearance of all items.

Three-quarters of an hour is allowed for the settling clerks to arrive at a correct return, and cash balances must be paid by 1.30 p. m., in lawful money or its equivalent, viz., Specie, Legal Tender, Treasury Notes, or Gold Certificates of the Clearing House. The latter are secured by gold coin deposited by the banks with the Clearing House, and are in denominations of $5,000 and $10,000.

These certificates, however, are only negotiable between Clearing House banks.

Of course, the balances paid into and paid out by the Clearing Houses exactly offset, and at the wind-up of the day's business, which averages something like $250,000,000 a day, the Clearing House has not one cent on hand for account of any of its members.

In all, there are 158 institutions, which directly benefit by the Clearing House organization:

Members—National Banks	32
State Banks	17
Asst. Treasurer of U. S.	1
Non-members	27
Clearing for Trust Co.'s	45
State and National Banks	36
	158

While the primary object in the establishing of the Clearing House was the settlement of balances, this is only one of its functions. The Executive Committee has power to grant clearing agents to non-members; to establish charges for collection of out-of-town checks; to examine into the condition of banks, etc., etc.

Above all this, which has mainly to do with the daily transaction of business between banks, the value of the institution lies in the service rendered in times of panic. The Clearing House is then not only a balance wheel for the financial machinery of the whole country, but a reservoir from whence emergency funds may be drawn when the situation demands.

As every business man knows, many a bank has, in the past, been compelled to close its doors, simply because it was unable to realize upon its assets, notwithstanding the fact that it was perfectly solvent at the time.

Pick up the statement of almost any bank and you will find, under the head of "Liabilities," these items:

Deposits, subject to check.
Certificates of Deposit.

Against these items are the amounts which the bank must always hold itself in readiness to pay upon demand.

As the bank's profit is chiefly derived from the loaning of its capital, surplus and deposits, it cannot leave the bulk of its funds lying in the vaults. On the other side of the statement, therefore, we find these items:

Loans and Discounts.
Bonds and Mortgages.
Real Estate, etc.

In case of a financial panic or a "run" on the institution, the question of "keeping the doors open" depends upon the ability of the bank to realize quickly upon its resources. A considerable portion of the Loans are on call; these can be gathered in at once. Time loans, however, being payable on a specified date, cannot be called in, and represent so much cash tied up. The same is true of mortgage loans. The greater part of the average bank loans are made by the discounting of commercial paper; this can be sold in ordinary times, but in panics it is almost impossible to dispose of.

When a "run" starts on a bank it must meet the first demands out of its cash on hand, bills, and gold coin; meanwhile, it calls in such loans as it can, sells all securities which it owns and which can be marketed, rediscounts or sells its commercial paper (notes). In short, it acts just as an individual would who is obliged to settle a certain large indebtedness instantly—he throws everything overboard, and borrows right and left on the best possible terms.

It may come to the point where the bank has $3,000,000 in deposits still to pay to the long line of depositors outside the teller's window, and to those whose checks are presented through the Clearing House. It has on hand $5,000,000 worth of Notes, Mortgages and Securities—more than enough to pay every depositor in full, if the collateral could only be turned into cash, or borrowed upon. None of the other banks have any money to loan—they also are endeavoring to withstand extraordinary withdrawals.

In its extremity the bank turns to the Clearing House and lays the matter before its Loan Committee. The members of this Committee examine the securities, and finding them satisfactory, advance to the bank 75 per cent of their value, or $3,750,000. With this amount the bank is able to pay its very last depositor in full; the line disappears from the teller's window; the institution is

recognized as sound; deposits begin to return, and before long the Clearing House loan is liquidated.

In issuing the Loan Certificates the Clearing House does not create any new funds, as will be seen by the form of the certificates:

tent of 75 per cent of the value of the collateral, and the Committee has the power to dispose of the collateral in case of default by the borrowing bank. Only solvent institutions receive this assistance, hence the issuance of Certificates to a bank is evidence of its soundness.

New York, ...

THIS CERTIFIES, *that the* ....

has deposited with this Committee, securities in accordance with the proceedings of a Meeting of the Association, held October 26th, 1907, upon which this Certificate is issued. This Certificate will be received in payment of balances at the Clearing House for the sum of FIFTY THOUSAND DOLLARS, *from any Member of the Clearing House Association.*

On the surrender of this Certificate by the depositing Bank above named, the Committee will endorse the amount as a payment on the obligation of said Bank, held by them, and surrender a proportionate share of the collateral securities held therefor.

....

....

....

....

$50,000.

....

Committee

Form of Clearing House Certificate Issued During the October, 1907, Panic

These certificates are available only for the settlement of Clearing House balances, and between members of the Clearing House association.

By this expedient, collateral which would otherwise be totally unavailable for stemming the tide of panic, is to all intents and purposes turned into money.

That the service rendered is not of local, but of national importance, is shown in the fact that over 60 per cent of the clearances of the entire country pass through the banks of New York City, and practically every bank in the United States keeps a balance in one or more New York institutions.

In the late panic, 72 per cent of the collateral deposited by the banks, as security for Certificates, was composed of commercial paper and 28 per cent of securities.

The Certificates are issued to the ex-

Over one hundred million dollars' worth of the Certificates were issued during the 1907 panic, every dollar of which has since been redeemed.

The Clearing House system has been in operation in European countries for a century or more, and is practically the same the world over, with some more or less important modifications. For example, in some cities, banks having credit balances in the day's settlement will immediately loan them to other banks whose balances are on the debit side.

Another important function of the Clearing House is the Bank Statement, which has already been elaborately described in this magazine.*

Loan Certificates were first used in 1860, and were the chief instruments in resisting many subsequent panics, as follows:

*Vol. 2, p. 222.

Issues of Loan Certificates by The New York Clearing House.

Year.	Aggregate Issue.	Rate of Interest.	Nature of Collateral.
1860	7,375,000	7 p. c.	U. S. Stocks; Tr'y Ctfs.; Stocks of State of N. Y.
1861	22,585,000	6 p. c.	Temporary receipts of U. S. for purchase of Government bonds.
1863	11,471,000	6 p. c.	U. S. or N. Y. State stocks, bonds, etc., or temporary receipts as in 1861.
1864	17,728,000	6 p. c.	Same as in 1863; comm. of that year continued.
1873	26,565,000	7 p. c.	Bills receivable; Stocks, Bonds and other securities.
1884	24,915,000	6 p. c.	do.
1890	16,645,000	6 p. c.	do.
1893	41,490,000	6 p. c.	do.
1907	101,060,000	6 p. c.	do.

Agreements Between Broker and Client

ONE of our subscribers incloses the following order blank and asks: Is there anything not desirable or exceptionable in this agreement? He states that he has never before been asked to sign such an order.

The client who intends to give his broker a square deal will not take exception to this contract. Nothing unusual is asked—it is merely the broker's insurance against those who play the baby act. To use a less polite term, such people are known as Bellyachers.

Please BUY for my Account and Risk

....

....

This order shall be executed according to the rules and customs of the New York Stock Exchange and may be through a buyer or seller contract at your discretion. All securities now held by you on my account or hereafter purchased for my account or deposited by me may be pledged by you as collateral in your general loans or used in making loans or deliveries of securities in the usual course of your business. I authorize you without demand or notice to close out at public or private sale or otherwise my account and all securities held or carried therefore, whenever in your judgment necessary for your protection.

I further agree to maintain a margin with you in cash and securities of at least per cent. above all my liabilities and will reimburse you upon demand for any and all losses arising from fluctuations in the market value of securities purchased, sold or carried for my account.

This order good until cancelled.

Name ....

Address ....

....

Combined Order Blank and Agreement

A Bellyacher is one who, having risked and lost what he cannot spare (or thinks he cannot), endeavors to avoid paying what he owes.

The client, in giving an order to buy or sell, makes the broker his agent, and empowers him to act according to the rules and customs of the New York Stock Exchange. No fair-minded person expects a stock broker to act as agent, furnish 90 per cent of the capital necessary in the transaction, and then stand in the gap all for ⅛ per cent, or $12.50. (A real estate broker who simply brings people together, furnishes no money and takes no risk, receives a commission of from 1 per cent to 2½ per cent on the amount involved.) Yet the amount of "bad accounts" charged off by stock brokers every year runs into the millions.

It is but just that the broker be given the right to pledge "all securities now held or hereafter purchased or deposited." The broker's capital must be in liquid or negotiable form. Without written authority he cannot rehypothecate securities deposited as margin. No one questions his right to borrow on securities bought for the client's account and carried on margin.

With the exception of securities paid for in full, and not required to protect the account, which should be put aside and labeled, "In Trust" (see p. 23, Vol. 1, No. 6), a broker should be free to handle certificates of stock in his possession just as he does the bank notes and silver in his cash drawer.

As regards the execution of orders, "through a buyer or seller contract at your discretion," this relates to transactions such as "Buyer three," "Seller ten," "Seller opening," etc., meaning that the buyer has the option of delivering the stock at any time within three days, or the seller within ten days. "Seller opening" means that the seller, not having a certificate for the exact number of shares which he is selling, reserves the right to make delivery at any time before, or at the opening of the transfer of books, it being impossible to have his certificate divided in the meantime.

The authorization to close out, at public or private sale, or otherwise, whenever, in the broker's judgment, it is necessary, seems only fair, in view of the circumstances. The broker risks $9 for every $1 risked by the client. Why shouldn't he have the right to protect himself? Why must this right be encumbered with restrictions as to place, hour and minute, where and when the account is to be sold?

The broker ought not be compelled to serve an engraved and beribboned "Know all men by these presents," to the effect that his ludship's account is in danger and maybe, perhaps, if the market continues weak, the humble broker will be obliged, a week from Thursday, at half-past three in the afternoon (sounds like a funeral, doesn't it?), to part with the remaining stocks in the account, much to the humble broker's regret. (Tears.)

The well-run brokerage office requires 10 points margin kept good. (The U. S. Supreme Court says it should be 10 per cent, on the current market value of the shares kept good.) (See TICKER, Vol. 2, p. 250.) When the margin gets down to 7 or 8 per cent, a demand for more is made; should no additional margin be forthcoming, and the market continue adverse until there is only 5 points left, the broker is justified in placing a stop order a point or two away from the exhaust point, and notifying the client that, owing to his failure to respond, the placing of the stop was necessary.

The broker is not out of the woods. The market may break so rapidly—one, two, or five points between sales—that when the account is finally sold out there is a debit of $1,000. Notices of sales and a statement of the account are sent the client, who raises his eyebrows in astonishment, then sits down to write something like this:

"On receipt of your advice, I mailed you a check" (the check requires two days to arrive and six days more for collection), or he will say:

"I am astounded at your action. You should have either given me more notice or carried me through the break. As I happened to be in the woods fishing when your telegram arrived, it was of course impossible for me to respond until I arrived home the day

after. Surely you have done business with me long enough to know," etc,

But the broker can only reply that having no word from him, he did not know but that he was ill or dead, and—well, in short, there was nothing else to do but "put a stop on."

But the client can't see it that way and pays no attention to demands for the balance due.

He belongs to the Ancient Order of Bellyachers, and the clause in the order blank which makes him promise to reimburse the broker upon demand, for any and all losses, is wholly equitable.

The client who is not willing to carry out all the provisions of this agreement should never set foot in a brokerage office—he is an Undesirable Citizen in the Street.

The brokerage house which does not require such an agreement from each client makes itself liable to heavy losses of this character.

In justice to all it must be said that clients with whom the agreement is actually needed to settle disputes, represent a very small percentage of the number served by the brokerage houses.

Investment vs. Speculation

WE scarcely pick up a publication nowadays without finding the views of some new authority on Investment versus Speculation.

The demand for all these opinions must have originated in the minds of the opinionated—at least we haven't noticed any special clamor from the public.

Nor has the cloud of dust improved the vision, diverted course of action or otherwise influenced men in general.

Let argumentative doctors shift the labels on the bottles as they will—those who want to speculate will speculate; those looking for safety and yield, will find it.

In all this war of words the pattest thing that has been said was by Mr. Albert Straus, of J. & W. Seligman & Co., in a recent lecture before the New York Y. M. C. A. Investment Class:

> "WHETHER ONE IS A SPECULATOR OR AN INVESTOR, DEPENDS UPON HIS INTENT."

Mr. Straus was broad-minded enough to admit that the speculator is of some benefit to society:

"By selling short, he enables the investor to buy more cheaply; when he covers his shorts, his purchase helps to occurs when no other support is at hand."

What method do you follow in your trading or investing? Write The TICKER how you have operated in the past, or describe your half-formed plans—possibly one of the owls may help make it a live proposition.

Method of Selecting Stocks

How it Picked Four Out of the Five Best Purchases in the Panic

THIS magazine was born in a panic, the first number being on the news-stands when banks were tumbling and Wall Street was in a generally chaotic condition. This was in November, 1907.

In that first number we printed a method of selecting the most desirable stocks.

The method is simple enough. You have merely to find the percentage which a stock is earning on its par value, then figure what this is on its market price. (Divide earnings by price.) When all the candidates have thus been examined, line them up and buy those which show the greatest earnings on market price.

A lot of people wrote: Give us these figures up to date.

We compiled the list.

It looked so ridiculous we hesitated to print it, fearing the Ha-Ha.

But we did print it, in the December, 1907, issue, which went to press November 15. Incidentally we might say it was the only Tip of which The TICKER has been guilty.

The figures showed that the five best purchases* were: Alton, Wabash preferred, Colorado Southern common, St. Louis Southwestern preferred, and Denver common—all of which were then selling from $15 to $30 a share.

Letters began to come in arguing that "The Professor" was in error—he hadn't allowed for the equities in Pennsylvania, New York Central and others, and for him to claim that Alton, Wabash preferred, and such Pups were worth more—were actually cheaper—than New York Central and Pennsylvania was absurd.

We stood our ground, claiming that these were the figures; that they didn't lie, as time would doubtless prove.

Based on these calculations, we offered the opinion that the great opportunities were in these low-priced stocks, intimating that the thin margin over dividends shown by "Pennsy" and New York Central might lead to a reduction in dividends. Both have since lowered their dividend rates.

Meanwhile, what has happened among the leaders?

Alton has enjoyed a greater percentage of advance than any stock on the list—260 per cent increase over the price of 15 given in the table!

Colorado Southern common stands next with 211 per cent.

Wabash preferred follows with 187 per cent.

Denver & Rio Grande has advanced 105 per cent, and St. Louis Southwestern pfd. 83 per cent.

Chesapeake & Ohio, which stood 14th on the list, has advanced 110 per cent.

In other words, four stocks out of the five selected *have* advanced more than any other four stocks on the list. The other one of the five was not so very far behind.

The position of Erie common—ahead of such stocks as Union Pacific, Northern Pacific, Great Northern preferred, Reading and others—is fully justified by the results. Erie has advancel 94 per cent, against 66, 32, 26 and 76 per cent respectively.

Meantime those at the bottom of the list have almost uniformly shown but very slight advances.

Some may say, "Union Pacific has gone up 73 points against Alton's 49; therefore the former was a better purchase."

But remember, friends, those were the times when very few brokers would buy except for cash. Those who did accept marginal orders were asking 20 and 30 and 40 points on Union Pacific. You could have bought Alton outright for 15 points.

Had normal conditions prevailed you could have bought Alton on 5 points, against 10 points on Union, and still made more on the former, in proportion to your capital.

Many other interesting features develop from a study of these figures. The

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*Lehigh Valley was wrongly listed owing to its par being $50.

Result of Selections Made in the Panic

Table showing that stocks which were earning most on market price Nov. 15, 1907, have since enjoyed the greatest advance.

Stock.	Nov. 15, 1907. Earns on Par.	Earns on Price.	Price.	Price Dec. 11. 1908.	Percentage Advanced.
Chicago & Alton com.	6.3%	42%	15	54	260%
Wabash pfd.	5.6	35.	16	46	187
Col. & Southern com.	4.9	27.2	18	56	211
St. Lo. Sow'n pfd.	8.1	27.	30	55	83
Den. & Rio Grande com.	5.1	26.8	19	39	105
Mo. Kan. & Tex.	6.3	26.2	24	39	62
Kan. City So. com.	5.8	25.2	23	38	65
St. Lo. Sow'n com.	3.7	24.7	15	23	60
Minn. St. P., S. S. M. com.	17.	23.	74	132	78
Iowa Cen. pfd.	8.	22.8	35	50	43
Atchison com.	16.	22.1	72	98	36
Mo. Pac.	11.8	21.4	55	66	20
Ches. & Ohio	6.	21.4	28	59	110
Texas Pacific	3.4	18.8	18	34	88
Brooklyn Rapid Transit	5.9	18.4	32	59	84
Chgo. & No. W. com.	24.5	18.4	133	176	33
Southern Pacific	12.	17.6	68	122	80
Ch., Mil., St. P., com.	17.3	16.9	102	151	48
Erie com.	3.	16.6	18	35	94
Pacific Coast com.	10.5	16.1	65	86	32
Balt. & Ohio com.	12.	14.8	81	110	35
C. C. C. & St. L. com.	7.2	14.4	50	69	38
Norfolk & Western	9.4	14.4	65	85	30
Union Pacific com.	15.7	14.1	111	184	66
North Pacific	15.	13.9	108	143	32
Twin City com.	9.4	12.7	74	95	28
Southern Railway pfd.	5.	12.5	40	60	50
Great Northern pfd.	14.	12.3	114	144	26
Louisville & Nashville	11.2	11.5	97	123	27
Canadian Pacific	16.	11.2	142	179	26
Reading	8.3	10.2	81	143	76
N. Y., Ont. & Western	3.	10.	30	47	56
Illinois Central	12.1	9.8	123	148	20
Atlantic Coast Line	6.8	9.7	70	110	57
N. Y., N. H. & Hart.	12.	8.5	140	158	13
Minn. & St. L. com.	2.2	8.4	26	51	99
Cent. of N. J.	12.8	8.	160	222	38
Pennsylvania	7.3	6.7	109	130	18
N. Y. Central	6.3	6.4	98	118	20

great thing is to work them out yourself and lay your plans for the long swing according to their indications.

It is the best method we have found for eliminating the many inequalities arising from varying prices, earnings, physical and financial characteristics. It proves that, after all, earnings are the truest index to future prices.

Better look over our first and second numbers and get this method down pat. It's miles ahead of guesswork.

Interurban Electric Railroads.

By H. J. Redfield
of J. H. Fertig & Co.

IN the transportation problem in the United States, there has probably been no factor of greater influence upon the population and industries of the country than the Interurban Electric Railroads. Development in this respect has been very pronounced in recent years, and the amount of capital invested in these properties has increased to a very large extent.

The policy of secrecy in their affairs, which formerly prevailed so widely, has given place to more enlightened methods. Earnings, both gross and net, of Interurban Electric Roads, have shown, in the majority of cases, a remarkable and constant increase during a period when steam railroad earnings have been declining. During the year 1907 fifteen states passed a two-cent fare law, or attained the same result through the action of their railroad commissions. This new legislation has had the effect of reducing the cost of transportation to the average traveler.

One of the problems which arose in in connection with this remarkable series of laws was the effect they would have on the Interurban Electic Railroads. A great many people supposed at the beginning of Interurban Electric Railroad development that the remarkable growth of traffic on these lines was due to the fact that they charged lower rates of transportation than their steam competitors; many people still entertain the belief that the feature which gives these lines their business is economy and not convenience.

There is little traveling now by steam between towns which electric lines connect, and this preference in favor of the "trolley" for short distance traveling is due to several causes.

1. Most of the steam railroads are not in the center, but on the edge of towns, and are thus less conveniently situated than the electric lines, especially in stormy weather.

2. It costs less to travel by the electric lines.

3. It is very much more convenient, owing to the greater frequency of the service. In cases where steam trains only run three or four times a day, trolley cars usually run every hour.

4. The frequency of stops make it possible for many to use the electric roads who could not use the steam lines.

Local traffic has been diverted largely from the steam to the electric lines, and some of the effects on the prosperity of the community has been as follows:

1. Real estate on suburban lines has enhanced materially in value along the entire line from one city to another. People doing business in the cities have bought farms in the country within convenient distance.

2. There has been improvement in values in small towns through which electric lines have run. There has also been awakened a kind of local pride.

People have traveled from place to place and compared the appearance of their town with that of another. This has resulted in many public improvements.

3. A marked effect has been made upon farming as an industry in the vicinity of large cities. General farming has been changed to truck farming, produce being brought to market without so large a loss of time and at less expense than formerly. In addition, a better supply of labor has been obtainable for farm work, and much loss thereby prevented.

An Interurban Electric Railroad increases the productive power of the whole territory which the line taps, and helps to minimize the cost of living, by lowering prices for products which can be grown locally.

In this age of railroad building, the construction and equipment of the Interurban Electric Railroad approximates that of its steam competitor. For the most part the electric railroads have passed through a reorganization period, and cheap construction is a thing of the past. The attitude of the steam roads toward their younger competitors differs greatly. The competition thus brought about has been foreseen for some years by the managers of the steam railroad properties, and has prompted in several cases their policy of securing control of electric railroads paralleling their lines and operating in their territories.

The market for securities of this class has shown a constantly broadening tendency during the past few years. The policy of publicity as to the affairs of these companies, the campaign of education carried on by the best known banking houses and periodicals, together with the fact that the values behind these securities are better understood and appreciated by the general public, have been responsible for the improved outlook. As a rule, however, the public has not yet fully recognized the opportunities which investments of this class present.

The market for municipal bonds and standard railroad mortgages has shown a rapid and substantial recovery from the low levels reached during the recent financial crisis, and has surpassed the hopes of a majority of close students of bond market conditions. We shall probably witness, in the near future, a marked tendency toward the absorption for investment, of Interurban Electric Securities, which fulfill the requirements of safety, both as to principal and interest with prospects of material enhancement in their value.

Capital for permanent investment must surely take advantage of the attractive returns now obtainable on such investments. There can be no question that the securities of Interurban Electric dividend-paying companies, which are under the supervision and management of conservative competent men, offer a form of investment comparing favorably in many cases with the best steam railroad mortgages, while the market for them is daily broadening.

The Danger of Permanent Investments

By Albert B. Berwanger
of Wagner & Berwanger

THE collapse of the Interborough-Metropolitan, with accompanying pathetic tales of life-time savings dwindled to shadows, suggests the query: Why did so many of the proverbial widow and orphan class own these securities? Of the class to which we refer, many of the holdings represented stock received in exchange for the original Metropolitan Street Railway securities.

If we knew when the original purchases were made, in all probability we should find that most of them dated back a score of years—stock inherited in many instances from thrifty business men or others, who earned every dollar through their own efforts. Doubtless the original purchaser invested after a careful investigation—the cars were crowded, the value of the Metropolitan franchise was unparalleled. True! Today with the securities at a fraction of their former market value, the cars are more crowded, the franchise is more valuable.

Enlightened brokers knew the decadent condition of the Metropolitan Street Railway. Had these "permanent" investors not been so satisfied, had they watched their securities as they did their business, they would not have lost their savings. Their very admirable idea was to secure to themselves and their heirs an investment that would definitely earn the tribute they exacted of their money, and be forever safe. This was assuming that the future would be a repetition of the past; that conditions then prevailing must continue unchanged. These investors, therefore, made a permanent investment which was not to be disturbed.

When an investment is in contemplation, there is one cardinal principle to be considered beside which all others are but unimportant details. This first consideration is the absolute security of his capital. (Absolute is used here in a comparative sense, since financial matters are far from an exact science.) If his choice is a bond, the prospective investor must be convinced that the property (a part of the mortgage on which he is to purchase) is fully worth the total amount of the issue. If a stock, he should know that the corporation's business is a safe undertaking, that what he purchases represents actual assets (tangible or intangible) above any bond issue that may exist.

It is not expected of the layman that he be capable of judging values. The banker or the broker should be consulted as is a specialist in any other business or profession.

Another important detail is the selection of a security that has a ready market, the reason for which is obvious.

The "return," or the interest the principal should earn, is probably the most vital point in the theory of investments. It causes, more than any other one thing, unwise investments. The safety of a "gilt-edged" security at once appeals to the intelligent investor, but he understands that he must pay for his security.

Three and one-half or four per cent! Who, short of a Rockefeller, can afford so little interest? He compromises by selecting a security that will pay him five and one-half or six per cent interest; it is a pitiful compromise for he has sacrificed his security for the extra two per cent.

We have said that the depletion in many a fortune was caused by investments made in former years and never disturbed, because they were considered "permanent investments." When once the idea exists that an investment is safe indefinitely, there is grave danger that the holder will let things drift. He reasons: My original judgment was correct—witness the ten or twenty paid coupons or dividends! But the fact is that every time a coupon is cut or a dividend received, the investment must be

considered as a new one. It should accordingly be reinvestigated. The past is only a guide to future earnings, not an indication of future safety.

A common fallacy is that money, except for current uses, must not be idle. Why must every dollar be continually earning its five per cent? There are frequent opportunities for purchasing good securities on Wall Street's bargain counter, but they cannot be embraced if every dollar is working. To partake of the tempting bargains, money is necessary, and something must be sold —this "something" of course is also on the bargain counter and cannot be sacrificed.

Assuming that $7,000 is available for investment; that Union Pacific is quoted at 140, that the price at which it is to be sold is 181 and that one year has elapsed since its purchase, then the investment stands as follows:

Bought 50 U. P. at 140	$7,000
One year's interest at 6%	420
Total cost	$7,420
Sold 50 U. P. at $181	$9,050
Four quarterly dividends of 2½% received	500
Total received	$9,550
Net profit	$2,130

Which amount is equivalent to about five years' interest at six per cent on the capital of $7,000. There are, therefore, five years in which to reinvest, the interest having been received in advance. However, the money is not completely idle, as the Savings Bank or Trust Company will pay from two and one-half to four per cent for its use. Thus the $2,130 "interest" is increased by three per cent on $9,550 between the time of the releasing of the principal and of the reinvestment.

The stock market has as well as its day-to-day fluctuations, extreme movements both up and down, not as uniform perhaps, but just as sure as the swing of the pendulum. If two years, or even three, must pass before another chance offers itself, the profits made have amply paid for the work. An investment plan of this character compels the attention of the investor and prevents him from drifting unconsciously into trouble, either for himself or his heirs. This is as legitimate a plan of investment as the purchasing of nine out of ten of the so-called bonds now owned by the public, and certainly more remunerative.

Bonds! What magnificent security underlies many of the current issues: flotation fees, reservoirs of water, stock of the basic company, and what not! What an element of farce there has been in the tragedies recently witnessed, resulting from the deluging of the investment market with such "securities"!

Every investor should be acquainted with the corporation which is using his money. He would not allow his own business to run without his personal attention. Surely his investments are vital to him and his dependents. If he gives them his constant attention they must rise as a monument to his sagacity. Above all things let the investor beware of the dangerous doctrine of *Laissez Faire.*

The Waiting Army of Investors

By William C. Cornwell

In J. S. BACHE & CO.'S WEEKLY FINANCIAL REVIEW

THERE are probably many hundreds of thousands of people in America who have intended for a year—ever since last November—to buy stocks for investment and who have not yet bought a share. The record low prices of November, 1907, looked low even to the most conservative people.

To the people who did not buy many reasons occurred for waiting. The principal reasons were fear or caution, combined with lack of experience. The shrewd investors who had been through many panics did not hesitate. Nor did some people who had never bought a share of stock, but had plenty of that courage which plants civilization in wildernesses and makes it grow.

But in November a year ago there was a great army waiting to invest. They had the money or could get it. They had access to the best advice, and that was to buy.

They waited and December came on with slight recovery, and then January with quite a rise. When this rise started this waiting army looked on with a slight feeling of contempt. It appeared purely fictitious. They turned away and busied themselves with other things.

Chronic Pessimists pointed out that there was nothing in the condition of the country to warrant a rise. Here was a time, after the terrible sweep of panic, for mourning, and yet, they said, some people had the temerity to be cheerful and even to buy in a rising market! Such people the Pessimists said were fools. The waiting army approved and kept their hands off the market.

In February there came a halt and a decline. This, said they, was what they, the Pessimists, had expected. Prices were now back again to about the December level. The army pricked up its hundreds of thousands of ears and looked wise but did nothing. Prices had declined, but there was no reason in the world for their remaining at even this high level. They were bound to go back to the October and November lows. Look at business—it was prostrated. Railroad earnings had fallen off startlingly. Buy at these levels? Well, only people who had lost their heads would be so foolish. No, they would watch the market carefully. There was bound to be a further decline. This was when Union Pacific was at 110, Southern Pacific at 67, St. Paul at 105, Northern Pacific at 117.

Then almost unconsciously the market began to mend, slowly rising through May, June, July, August. The army of intending investors almost disbanded in disgust. This was pure manipulation, they said. What was the use of tolerating such foolishness?

As the rise continued they began to look a little serious. But a reaction was sure to come, and they became almost cheerful again thinking about it. Well, it came, in September. Not a serious reaction, but enough of one and long enough to allow belated investors to get in at prices that look today wonderfully cheap.

But to the waiting investors who studied their little quotation records the prices compared with those of six months ago looked outrageously high. Business, as they saw it, showed up distressingly bad. Such prices could not hold. They would wait for a further reaction. This time, however, they concluded not to wait for the extreme low prices of the panic. With a drop of ten points more which was sure to come, they would buy anyway.

When prices instead of falling began once more to advance they disapproved and looking ahead were sure that election scares would create a big decline, and when this did not materialize and election went right, and the after-election dulness did not come, they still held off, and they are holding off now.

INQUIRIES

What do you wish to know about trading or investing in securities or commodities?

Is it something regarding opening an account, margins, commissions, stop orders or other kinds of orders?

In fact, is there any point in connection with the science, methods or customs of the various markets which you would like to have elucidated?

If so, write us questions briefly and they will be answered in this column or otherwise. If personal reply desired, enclose stamped envelope. Address Inquiry Department.

WE DO NOT GIVE ADVICE OR OPINIONS UPON SECURITIES OR PROBABLE MARKET MOVEMENTS.

A Safe Scale Method

WILL you kindly state whether you think it would pay me to operate on the following plan: Steel common has had a rise of over 35 points; it will some day react to 50 or 45, from which point it should rise again to the high level. I propose to buy 100 shares at 45, sell out at 55, and repeat as often as the market will permit. Do you not think this a safe and profitable method?

Ans.—We do not think well of the idea. If there was any certainty that Steel would fluctuate between those figures or thereabouts, we might favor it.

No one can tell whether Steel will sell at 75 before 25 or vice versa. If, after buying at 45, the stock should decline further and stay below that figure for a long while, you might grow impatient and sell out at a loss. On the other hand, it may never touch 45 again, or it may go to 45 and then to par, giving you one profit and cutting you out of all the balance of the rise.

There being no especial reason for believing that Steel will range in the neighborhood of 50 in future, your buying and selling points are based on guess work and past history.

Look at Steel in a broad way. It is a 2 per cent stock with a large surplus in its treasury. Judge for yourself whether the chances favor increased or decreased dividends, and decide at what price it begins to be cheap. Your first buying point should be at whatever figure your judgment dictates. (We do not favor buying all you can at one price.)

If you then consider 45 is a proper figure to commence operations, buy as follows:

20 shares @45
20 shares @40
20 shares @35
20 shares @30
20 shares @25

You may think it ridiculous to place orders at these low figures, but remember it's the unexpected that happens in Wall Street.

Or, in order to benefit by the smaller swings, buy 10 shares at 45 and 10

more every 2½ points down. Thus you will reduce your average cost as the market declines. If the price reaches 35 you will have 60 shares at an average cost of 40.

Should the stock then rise to 50 or above, and yon decide to begin selling at 55, divide your 60 shares into 10 or 20-share lots and sell these on a scale. Don't dump it all out at once; it may go way beyond your expectations. Remember you don't know, you only think you know.

Each lot that is sold leaves the way open for replacing it at lower figures, but this should be done at definite 2½, 5 or 10-point recessions from the selling price—not at random. Decide beforehand at what prices you will replace your stock. Have your plan complete and stick to it. After selling one lot at 55, you may see it 53 and be tempted to take it back, on the ground that you would then be two points ahead. This is true, but in grasping the two points you have upset your system.

A system isn't a system unless it's a system.

Your buying and selling limits should be raised, lowered, or widened according to the position of the stock. Should the dividend be increased, decide on a range within which you believe the stock will keep, and place orders accordingly.

Above all things do not enter into this plan on a marginal basis. The reason is: If you buy on margin, the lower the stock goes the more nervous you become; at the very time when the greatest bargains are to be secured, you tremble for fear Steel will never stop going down. This fear will probably compel you to cancel the remaining orders, or throw over all the stock you have bought at higher prices.

But if you pay in full for what you purchase, each new lot secured will be highly prized—you continually hope it will go lower so that further quantities can be bought.

The whole idea of this plan is to enable one to buy when cheap and sell when above temporary values systematically, without risk, and so as to derive the greatest benefit from the fluctuations of the market. The weak point in it depends upon the operator—if he is unable to adhere to it at all times, he had better not begin. It takes capital and patience.

Obviously there is no provision for trading on the short side, as this must be done on margin.

This method may be used for trading in other stocks, care being necessary in their selection, estimated range, etc.

Par Values

Q.—Kindly advise me how to figure the cost of 100 shares of a stock bought at 3, the par value of which was $50 per share.

Ans.—It depends upon whether the price was $3 per share or 3 per cent of its par. Anyone can figure 100 shares at $3 per share, but the dollar mark does not always appear, consequently many are puzzled.

The rule is to bear in mind that all stocks traded in in Boston and Philadelphia are at "Dollars per share," whereas in New York they are usually traded in at "Per cent of par value."

Volume 1, No. 6, of The TICKER contains a list of Par Values of stocks less than $100 par, showing how they are figured and the commission rates. For instance, Reading ($50 par) is quoted in New York at 140 per cent, and in Philadelphia at $70. In both cities 100 shares are worth $7,000, for 140 per cent of $50 is $70.

In the case of Mr. Lawson's "National Stuck," 100 shares at 3, in New York, would cost $150, because the face value of each 100 shares is $5,000, and 3 per cent of $5,000 is $150.

When it was 3 in New York the stock was $1.50 in Boston. 100 shares at that price is also $150.

Reports on Brokers

E. B. B.—Better consult the regular commercial agencies. Many firms of doubtful reputation have their own "commercial agencies" whose business it is to report favorably on their own firms and adversely on competitors.

Odd Lots in a Bucket Shop

Q.—In your November number you state that executions of orders in odd lots are made more promptly and frequently at better prices than 100-share lots. My broker here states that it is very hard for him to get odd lots of ten shares to twenty shares, and that he cannot get ten-share lots at the market price. I have in the past two weeks given him orders to buy ten shares (outright) in four different railroads. Several times the market quotations were at the figures I gave to buy and they have been a quarter to a half point less than my price. I cannot understand why he is unable to get my stock. He is a bucket-shop broker and the best people of this city trade with him, but I find when it comes to buying stock outright, in odd lots, he cannot get your stock at market pricee.

Ans.—The reason your bucket-shop keeper cannot purchase odd lots at the market price is probably this: He is obliged to place cash orders with a member of some exchange and has to pay a commission, just as you would if you dealt direct with the member. The bucket-shop man adds his own commission to the net purchase price; in other words, you pay two commissions to start with, and on top of this, the bucket-shop keeper probably "rubs it into you" for half a point or a point more. This is the only chance he has to make any money out of cash transactions. The stock you are dealing with has a great deal to do with the difference between odd lots and 100-share lots. (See articles in back numbers of "Ticker.")

Averaging Purchases

Q.—I have put up $1,000 as margin on 50 shares of Smelters, bought at 90½, and have given an order to buy 50 more at 89. When this is bought I intend to put up another $1,000 margin. This will give me 100 shares with a margin of $2,000. I would like to have your opinion as to what you think of this as a speculation. I intend to keep it about three months and not bother with the market in the meantime.

Ans.—We regret that we cannot advise you regarding the prospects of the stock. Our policy prevents the furnishing of an opinion on anything except market methods, etc.

We should say that your second order was too close to the first. There is very little difference whether you buy 50 or 100 shares at 90½, if your idea is to average when it goes to 89. It would be better to place your second order at 85 or 80; better still, wait until the market has had a severe decline and then buy what you want on a weak spot and at the market price.

You make a mistake in deciding to keep your stock for any specified length of time.

You should sell it when you are satisfied with the profit, or when you believe it will not go higher, or when you have reason to think you can replace it at lower figures.

Fake Promoting

Q.—The * * * of * * * desire to incorporate a big stock company for me, with a capital stock of $100,000, and issue $40,000 worth of ten-year 6 per cent Debenture Bonds on a certain patent that I desire to promote. Can they sell bonds in a concern like this without it being on a paying basis and the device adopted by some of the railroads? If so, what would be the length of time required to sell this amount of bonds? This company wants me to pay them $230 to do all the incorporating, advertising the sale of bonds, getting the bonds out, properly engraved, etc. Are they after this amount of money trying to make me believe they can really sell the bonds, or do they really think they can sell these bonds for me? Their commission being 3 per cent when bonds are sold.

Ans.—We know nothing about the company of promoters you mention, but do not see how they can dispose of bonds unless they are secured by property, plant or something else of permanent value. We do not say the following is the case in your proposition, but there are promoters (so called) who make pretensions of this kind, their object being to get your money, and let you whistle for results. In such a case, the $230 would be divided thus: Expenses on the whole job, $30. Velvet, $200.

Assignment of Certificates

Q.—I inclose copy of assignment printed on back of certificate of stock which I hold. Have I filled it out correctly?

KNOW ALL MEN BY THESE PRESENTS THAT I, J. J. Fitzgerald, the undersigned, for value received, have bargained, sold, assigned, and transferred, and by these presents do bargain, sell, assign, and transfer unto ....
all the property, right, title and interest represented by the within certificate, subject, however, to all the terms and conditions of the agreement referred to therein and do hereby constitute and appoint John Brown true and lawful attorney irrevocable for me and in my name and stead, but to use, to sell, assign, transfer and set over all said property right title and interest, and for that purpose to make and execute all necessary acts of assignment and transfer, and one or more persons to substitute with like full power, hereby ratifying and confirming all that my said attorney or his substitute or substitutes, shall lawfully do by virtue hereof.

IN WITNESS THEREOF, I have hereunto set my hand and seal this 25th day of November, One thousand nine hundred and eight.

Ans.—It is filled correctly, providing you wish to appoint John Brown your attorney.

The paper as it stands makes it impossible for anyone but Brown to transfer the stock without executing a Power of Substitution. This is proper, provided Brown is your broker, to whom you are shipping or delivering stock.

Puts and Calls

Q.—I do a little trading in one stock—Reading. I buy and sell in 100 share lots. Have been in the market only two months—never knew a thing about it before; probably I don't know much now, except that I am ahead a little bit working on a 10 point margin. What is your opinion regarding puts and calls? Do you think I would benefit by their use, trading as I do, and making about 2 or 3 turns a day? In what way would they benefit me?

If I decide to use them will my broker object in any way? Do I purchase them through him or some one else? What do they cost?

Ans.—For trading as you do, we do not believe you would benefit unless you purchase what are known as "Two Day Calls." These are fairly close to the market. In back numbers of The Ticker you will find information regarding Puts and Calls. These must be bought from those who issue them or from dealers such as advertise in this magazine.

Some brokers will accept as margin Privileges issued or endorsed by N. Y. Stock Exchange houses; others will not. The chief advantage in using Privileges is your loss need never exceed the cost of the Put or Call. Some people become very expert in their use and considerable money has been made starting with a little.

Books for Brokers

Q.—I intend going into the stock brokerage business. Will you kindly mention a list of books which will enable me to post myself thoroughly?

We recommend that you first read the "Work of Wall Street." This will give you a very good idea of the machinery of the Street. Next, "Money and Investments," which explains every technical term clearly and elaborately. Vol. I and Vol. 11 of The Ticker contain many helpful articles, and hundreds of answers to inquiries which would come up in the course of business. Follow these with "The ABC of Stock Speculation"; this volume contains a number of working plans which will enable you to make suggestions to your customers.

For studying "long swings" read "Investments—What and When to Buy" and "How Money is Made in Security Investments." "Pitfalls of Speculation" and "Cycles of Speculation" are also valuable. For studying annual reports, earnings, etc., Moody's Manual, Poor's Manual, the Financial Chronicle (N. Y.), and the Wall Street Journal are the authorities.

We can supply these publications. See list of books on another page.

Bond Descriptions

Q.—In the Bond List shown in daily papers there is mentioned Atchison Convertible 5s now quoted at about 107. Will you kindly say how they are secured, also what they are convertible into, and when?

Is there a publication to which I can refer at any time for such information?

Ans.—The Atchison, Topeka & Santa Fe Convertible 5 per cent bonds due June 1, 1917, are convertible into Atchison common stock at par at any time before June 1, 1913, and may be called by the company at 110 on any interest day. When called they may be converted into stock, provided the time for conversion has not expired. These bonds are not at present secured by a mortgage, but the trust deed provides that no new mortgage on lines owned January 1, 1907 shall be made without securing these bonds thereunder.

This information is from the Investor's Supplement of the Financial Chronicle, a weekly publication, price $10 a year, Pine and Pearl streets, New York City. Other publications are: Poor's Manual, Moody's Manual, The Manual of Statistics. See list of books on another page.

Buying Outright

Q.—In buying odd lots is the usual understanding with the broker that they are bought outright, the buyer, of course, having made a deposit covering the purchase price?

Ans.—Legitimate brokers buy everything outright, no matter what the quantity. If the client wishes to pay in full, the certificate is usually transferred to his name and taken away by him, but the client may leave the certificate with the broker for safe keeping. When stock is to be carried on margin, the client deposits say $10 per share, and the broker either holds the certificate in his safe deposit box or uses it as collateral in loans. If this does not cover your query, write again.

Standing of Houses

Q.—Please give the financial standing of the following firms dealing in mining stocks.

Ans.—We regret that we cannot give you the respective standing of the houses you mention. We do not undertake to act as a rating agency. We simply refer our subscribers to such houses where, in our opinion, it is safe for them to deal.

A Point "Net" Defined

Q.—I bought Beet Sugar about six months ago at 21½, and two weeks ago gave an order to close me out at a point net profit. The broker closed me out at 22¾. Should he not have waited until the stock went to such a point as to give me a net point profit after the interest was paid, or did he act in accordance with the custom prevailing?

Ans.—Your broker acted in accordance with the custom of the Street. One point net profit means "including commissions." If you wish interest to be allowed for, you must so state in giving such orders.

Opinions

Q.—Will you give by mail your opinion of certain stocks?

Ans.—We cannot depart from the rule set forth at the head of this column. It is our purpose to present methods by which each individual can figure things out for himself. We have little use for ready-made opinions. If you or I had been carried about from infancy how could we ever have learned to use our legs? See "Your Own Brains" in last April's issue.

American Tobacco

Q.—Kindly give me the High and Low price of American Tobacco Pfd. for the past few years. Is it now paying a dividend?

Ans.—1904—high 96, Low 85; 1905—high 109⅜, low 91⅞; 1906—high 109, low 96; 1907—high 99, low 60; 1908 (to date)—high 97½, low 72½.

The stock has paid dividends at the rate of 6 per cent per annum since it was listed—1½ per cent in Jan., April, July and Oct.

A "Transaction"

Q.—A complete transaction on the exchange floor, as I understand it, consists of a sale and a purchase. Is it the initial offer to sell or the bid that stamps the transaction as a sale or a purchase?

Ans.—A transaction on the floor consists of both a purchase and a sale; it makes no difference whether the bid or offer is made first. For every seller there is a buyer (see page 43 of Vol. 3, No. 1).

Walker's Copper Letter

Q.—Can you inform me concerning "Walker's Copper Letter"?

Ans.—It is published in a weekly newspaper, the "Boston Commercial," and copies of the letter are mailed to subscribers. It is considered an authority on copper mines as well as the metal situation. Stevens Copper Hand Book is also a standard work on this subject.

Denver Preferred

Q.—Why is Denver & Rio Grande Pfd., a 5 per cent stock, selling at about 76¼, when other railroad stocks, not preferred, selling at a higher price, do not pay so high a rate on the investment?

Ans.—The dividend on Denver Pfd. has scarcely been warranted for a number of years past. The Gould properties generally are in disfavor. Denver is bearing the brunt of the Western Pacific financing at present.

Complete Your Files

Q.—Can I purchase back numbers of "The Ticker" at your office?

Ans.—We can supply back numbers of "The Ticker" at 25 cents each postpaid. It is best to have a complete file while you can secure the missing numbers, as some will soon be out of print. Reference is often made to articles in back numbers, hence if your file is incomplete you will not receive full benefit from current and future articles.

The Balance of Power

WHO or what is responsible for the violent fluctuations in prominent railroad and industrial shares? No one man or group of men can be blamed or blessed therefor. Fundamental conditions form the basis of all great stock market movements.

The underlying situation is constantly scrutinized by large interests in order that their plans may accord with the trend. These plans are continually modified to fit changing circumstances. Floor traders, semi-professionals, and the public do likewise, in a more or less intelligent way. This is reflected in the attitudes assumed by large and small operators towards different stocks at various times.

The statement that a certain interest is the dominating power in some particular stock is therefore not always to be taken literally. For example: In 1906 Reading was pushed down to 112. H. C. Frick was reputed to be a heavy buyer on a scale down from 120; it was said that Mr. Frick's buying turned the stock. After Reading had rallied a dozen points or so, Geo. A. Kessler and his friends started to corner Reading, and were successful in running it up to 164. At this point Mr. Frick and a host of others dumped a cartload of the stock and the bull crowd met with a crushing defeat.

It will be seen that Mr. Frick at the low level held the balance of power—as represented by his ability to purchase enough to turn the course of Reading upward. From say 125 to 164 the Kessler people were in command. From thence Mr. Frick again held the mastery.

Hence in studying the forces behind individual stocks, and their resulting habits, it is well to remember that the circumstances are changing incessantly.

Reading at 70 in a panic is one proposition; at 140 it becomes another. Union Pacific as a 10 per cent stock at par is a bargain, all will agree; as it approaches 200, there is a shifting of opinion.

A DEAD ONE

Thomas W. Lawson, Esq.

Dear Tom: Why walk around to save those funeral expenses?

The Street will cheerfully chip.

By this time you must know you're dead.

Everybody else does.

How to put salt on the Eagle's tail: Read The Ticker.

Tell me what financial literature you read and I'll tell you how you trade.

The greatest weapon in the war against bucket shops is the acceptance of ten share orders by Members of The New York Stock Exchange.

A BOOK ON BONDS

INVESTMENT BONDS. Their issue and their place in finance. A book for students, investors and practical financiers. By Frederick Lownhaupt.

In confirmation of the statement that the Investment Security Business is in its infancy, so far as the United States is concerned, this welcome volume appears, accompanied by the claim that it is the first book devoted exclusively to the subject of Investment Bonds.

Following are some of the principal subjects treated: Processes of Issue; Negotiation; Underwriting; Syndicate Formation; Operation, Management; Marketing; Strength of Security; Mortgages; Refunding; Defaults; Reorganizations; Sinking Funds; Municipal Bonds, etc.

Every bond dealer, banker, broker and investor should have this book for study and reference.

FROM A MAN IN MICHIGAN

You will find enclosed $3.00. Consider "The Ticker" the very best ever and expect to continue on your list just as long as I can dig up the price.

I find many articles, queries and answers threshed over in "The Ticker" that are impossible to get from any other source. Consider it a teacher and a welcome visitor.